

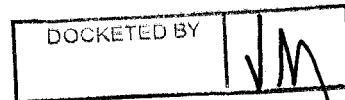


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Arizona Corporation Commission
DOCKETED

MAY 09 2000



1 BEFORE THE ARIZONA CORPORATION COMMISSION
2 CARL J. KUNASEK
Chairman
3 JAMES M. IRVIN
Commissioner
4 WILLIAM MUNDELL
Commissioner
5

6 IN THE MATTER OF THE APPLICATION
7 OF U S WEST COMMUNICATIONS, INC.,
8 A COLORADO CORPORATION, FOR A
9 HEARING TO DETERMINE THE EARNINGS
10 OF THE COMPANY, THE FAIR VALUE OF
11 THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN THEREON
AND TO APPROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. T-01051B-99-0105

**NOTICE OF FILING TEST YEAR
UPDATE**

12 U S WEST Communications, Inc. ("U S WEST") hereby gives
13 notice of filing the following updated testimony and supporting
14 schedules of George Redding, Ann Koehler-Christensen, Pete
15 Cummings and Dennis Wu. U S WEST is in the process of updating
16 certain other information including (1) the RCND study (2)
17 certain cost studies, (3) and certain information relating to
18 rate design. This information will be provided as soon as it is
19 completed.

20
21 DATED this 3rd day of May, 2000.

22 U S WEST COMMUNICATIONS, INC.
23 Law Department

24 By
Thomas Dethlefs

25 Tom Dethlefs
26 and

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Attorneys for U S West
Communications, Inc.

ORIGINAL of the foregoing hand-delivered
for filing this 3rd day of
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Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered
this 3rd day of May, 2000, to:

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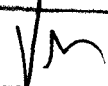
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Arizona Corporation Commission
DOCKETED
BEFORE THE ARIZONA CORPORATION COMMISSION
MAY 03 2000

DOCKETED BY	
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IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE EARNINGS)
OF THE COMPANY, THE FAIR VALUE OF THE)
COMPANY FOR RATEMAKING PURPOSES,)
TO FIX A JUST AND REASONABLE RATE OF)
RETURN THEREON, AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN.)

DOCKET NO. T-1051B-99-105

SUPPLEMENTAL DIRECT TESTIMONY

OF

GEORGE REDDING

U S WEST COMMUNICATIONS

May 3, 2000

**TESTIMONY OF GEORGE REDDING
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IDENTIFICATION OF WITNESS

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Q. PLEASE STATE YOUR NAME , TITLE, EMPLOYER AND ADDRESS.

A. My name is George Redding. I am employed by U S WEST Communications ("U S WEST" or "Company") as Director-Regulatory Finance. My address is 1801 California, Denver, Colorado.

Q. ARE YOU THE SAME GEORGE REDDING WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING ON JANUARY 8, 1999?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR THIRD SUPPLEMENTAL TESTIMONY?

A. In a hearing on April 4, 2000, the Chief Hearing Officer ordered U S WEST to update its filing to reflect a 1999 test year. This supplemental testimony outlines this update to the test year and discusses several differences between this test year and the original test year, which was the twelve months ending June 30, 1998.

1 **Q. DOES THIS FILING COMPLETELY REPLACE YOUR ORIGINAL FILING**
2 **DATED JANUARY 8, 1999 AND YOUR FIRST AND SECOND SUPPLEMENTS**
3 **DATED MARCH AND DECEMBER OF 1999?**

4
5 **A. Not completely. As I stated in my December 1999 supplemental filing, the March**
6 1999 supplemental filing was completely replaced by the December 1999
7 supplemental filing. That still holds true.

8
9 The original January 1999 filing and the December 1999 supplemental filing are
10 still valid as far as discussion of issues is concerned. However, all amounts in
11 those filings and the accompanying exhibits to those filings are completely
12 replaced by this supplemental filing updating the test year.

13
14 **Q. ARE YOU UPDATING THE R-14 FILING PACKAGE?**

15
16 **A. No, I am not. Due to the extreme time constraint imposed by the requirement to**
17 file the update to the test year by May 2, 2000, I have not attempted to update
18 the filing package.

19
20 **Q. ARE YOU UPDATING THE RCND FILING OR THE RATE OF RETURN**
21 **ADVOCACY?**
22

1 A. Both will be updated. Mr. Peter Cummings has provided me with an updated
2 cost of capital and is filing supplemental testimony concurrent with my filing. Ms.
3 Nancy Heller-Hughes will be filing updated RCND testimony and exhibits
4 reflective of the update to the test year and the new depreciation rates and lives
5 approved April 25, 2000. However, this update will require approximately six
6 weeks. It will be filed as soon as possible.

7
8 **Q. YOU MENTIONED NEW DEPRECIATION RATES AND LIVES. ARE THEY**
9 **REFLECTED IN YOUR UPDATE?**

10
11 A. Yes, they are. Mr. Dennis Wu, U S WEST's witness in the depreciation docket,
12 will address the depreciation rates and lives granted in that docket and the
13 impact of those rates and lives when applied to December 31, 1999 plant
14 balances. This amounted to \$99.7M. To this was added approximately \$4.1M
15 related to the change in rates and lives applied to deregulated investment and
16 another \$4.0M related to the change in rates and lives applied to the difference
17 between state and FCC capitalized interest.

18
19 **Q. WHAT IS THE REVISED ADDITIONAL REVENUE REQUIREMENT?**

20
21 A. It is \$201.2M based on calendar year 1999.
22

28

END OF PERIOD ADJUSTMENT

**Q. PLEASE DESCRIBE THE END OF PERIOD ADJUSTMENT AND THE STEPS
NECESSARY TO PERFORM SUCH AN ADJUSTMENT.**

A. Certainly. Because of the requirement of a fair value rate base, any revenue requirement filing in Arizona is based on an end of period rate base. In order to maintain a synchronization between the revenues, expenses, taxes and rate base, it is necessary to bring the revenue, expenses and taxes to end of period levels to match the rate base. It is what is commonly known as a volume adjustment.

The end of period adjustment eliminates accounting adjustments per se and all in-period pro forma annualization adjustments. Accounting adjustments are still made, but they are included in the development of the base for the end of period adjustment as I will describe more fully. In-period pro forma annualizations also become part of the end of period adjustment. For example, if a revenue change took place in October, a normal pro forma adjustment would annualize the price level change such that it would look like it had been in effect for the entire test year. With an end of period adjustment this annualization is not necessary as the new level of revenues is already included in the end of period amount used as the basis for the end of period adjustment.

1 **Q. DID YOU INCLUDE AN END OF PERIOD ADJUSTMENT IN YOUR ORIGINAL**
2 **FILING ON JANUARY 8, 1999?**

3
4 **A.** Yes, I did. With some exceptions, that end of period adjustment was done in the
5 same manner as in the Company's last rate case, Docket No. E-1051-93-183.
6 The only major difference between the end of period adjustment I presented on
7 the original test year ended June 30, 1998 and that used in Docket No. E-1051-
8 93-183 is that I annualized the end of the test year for non-wage related
9 expenses as well as for revenues, wage related expenses and taxes which had
10 been done in the prior docket.

11
12 **Q. HAVE YOU PERFORMED THE SAME ADJUSTMENT TO THE REVISED TEST**
13 **YEAR?**

14
15 **A.** Yes, I have.

16
17 **Q. PLEASE DESCRIBE THE PROCESS REQUIRED TO PERFORM AN END OF**
18 **PERIOD ADJUSTMENT.**

19
20 **A.** Following the precedent of Docket No. E-1051-93-183, I annualized revenues,
21 wage related and non-wage related expenses and taxes by multiplying the last
22 month of the test year by twelve. For the updated test year, that month is

1 December 1999. In order for this adjustment to be done properly, two steps
2 need to be taken before annualizing the December 1999 results.

3
4 The first step was to analyze December and remove any one time or unusual
5 adjustments that were made in that month. This is very similar to the normal
6 process of accounting adjustments. The difference is that these accounting
7 adjustments are not made as discrete adjustments. Rather, they are used to
8 adjust the starting point that will then be annualized to bring the test year to end
9 of period volumes. For this reason, they are not shown as separate adjustments.

10
11 Once December is normalized, it must then be compared to a trend of
12 operational results. This is done to ensure that the month being annualized is
13 representative of the trends in operational results, both revenues and expenses.
14 In the case of the updated test year, a few items were not in alignment with trend.
15 When this occurs, additional analysis must be undertaken and alternatives to the
16 annualization of December must be used.

17
18 **Q. CAN YOU GIVE AN EXAMPLE WHERE YOU USED ALTERNATIVE**
19 **METHODS?**

20
21 **A.** In the case of wage related expenses, the normalized month of December was
22 not in alignment with a trend based on the months of October 1999 through

1 February 2000. One of the items that was out of trend was customer operations
2 wages and salaries. I substituted an amount developed from examining the
3 trend for the normalized December in this case. After making this adjustment,
4 the total of wage related expense to be annualized was in line with trend. The
5 modified December amount was then annualized to obtain the end of period
6 adjustment.

7
8 **Q. DID YOU DO THIS WITH ALL LINE ITEMS?**

9
10 **A.** An overall reasonableness check as described above was performed for all line
11 items. In many cases, the normalized December amounts were in line with trend
12 and no further analysis was necessary. It was only when the normalized
13 December was not in line with trend that further analysis was done.

14
15 **Q. IN THE LAST CASE YOU SET FORTH A NUMBER OF "ADJUSTMENTS NOT**
16 **MADE" IN CASE SOME PARTIES CHOSE TO CONTEST THE END OF**
17 **PERIOD ADJUSTMENT. HAVE YOU DONE THE SAME IN THIS UPDATE?**

18
19 **A.** No, I have not. Time constraints precluded me from making these adjustments.
20 I had only enough time to make the necessary adjustments to present a revenue
21 requirement update using the end of period methodology described above.

22

COMMISSION & PRO FORMA ADJUSTMENTS

Q. WHAT COMMISSION ADJUSTMENTS HAVE YOU MADE?

A. They are identical in type to those made in the original filing. Non-employee concessions were removed, cash working capital and customer deposits adjustments were made to the rate base. Some amounts of merger costs related to the merger of the three telephone companies are still being amortized and were removed. An interest synchronization adjustment was made. All of these adjustments were in accordance with the Commission's order in Docket No. E-1051-93-183. One Commission adjustment was not made, namely that for Bellcore expenses. This adjustment was not necessary since Bellcore had been sold to an independent third party prior to the beginning of the test year.

Q. WHAT PRO FORMA ADJUSTMENTS, OTHER THAN THE END OF PERIOD ADJUSTMENT, HAVE YOU MADE IN THE UPDATE?

A. As mentioned earlier, I have made an adjustment for the new depreciation rates just ordered. I also made adjustments for wage and salary increases that will occur within twelve months of the end of the test year, an adjustment to include Post-Retirement Benefits Other than Pensions (PBOPs) and the inclusion of the pension asset. I also made a three year adjustment for the Bellcore gain. These same adjustments were made for the original test year.

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**Q. ARE THERE ANY OF THESE ADJUSTMENTS YOU WISH TO DISCUSS
FURTHER?**

A. Yes. My discussion of the PBOP issue on page 19 of my January 1999
testimony should be reviewed for the rationale for this adjustment. Likewise the
discussion beginning at page 15 of my January 1999 testimony addresses the
pension asset in some detail.

**Q. IN YOUR ORIGINAL TESTIMONY YOU DISCUSSED CERTAIN
ADJUSTMENTS YOU DID NOT MAKE, NAMELY DIRECTORY AND
AFFILIATED INTERESTS. DID YOU MAKE ANY ADJUSTMENTS FOR
THESE ISSUES IN THIS UPDATE?**

A. No, I did not. I discussed affiliated interests at some length beginning at page 21
of my January 1999 testimony. Nothing that I discussed there has changed. Ms.
Ann Koehler-Christensen discusses the directory issue in depth in her testimony.
Because the modifications necessitated by a change in test year appear
throughout her testimony, her supplemental direct testimony completely replaces
her direct testimony filed on January 8, 1999.

DIFFERENCES IN ADJUSTMENTS CAUSED BY UPDATE

Q. WHAT ADJSUTMENTS ARE DIFFERENT FROM THOSE MADE TO THE ORIGINAL TEST YEAR?

A. One that requires some explanation is the three year adjustment made in my original test year for Y2K expenses. I did not make a similar adjustment in this update. When I was developing the original revenue requirement based on the test year ending June 30, 1998, it appeared that Y2K expenses would create an out-of-trend condition for Information Technology expenses. With the benefit of hindsight, this is not the case. Information Technology expenses have and are continuing to grow. The necessity to address the Y2K problem caused other projects to be deferred. Those projects are now being addressed.

Q. WHAT EVIDENCE TO YOU HAVE THAT INFORMATION TECHNOLOGY EXPENSES ARE NOT OUT OF TREND?

A. The Arizona information technology expenses for the last several years have been as follows:

1996	\$ 76.3M
1997	101.5M
1998	122.8M
1999	129.0M
2000*	159.8M

*Annualized based on January through March actual results.

1
2 Furthermore, the Information Technology budget for the Company for 1999 was
3 \$1,192M; it is \$1,375M for 2000. Based on this evidence I have treated all
4 information technology expenses as a normal ongoing item; in other words, the
5 projects may change, but the total level of expense is trending upward.
6

7 **Q. ARE THERE OTHER ADJUSTMENTS THAT ARE NOT INCLUDED IN THE**
8 **UPDATE THAT WERE IN THE ORIGINAL FILING?**
9

10 A. There are two additional items, namely amortization of the depreciation reserve
11 deficiency and Local Number Portability (LNP). In a recent decision, the
12 Commission rejected the reserve deficiency amortization; therefore, it is not
13 included in this filing.
14

15 An adjustment for LNP is no longer necessary. At the time of the original filing,
16 LNP revenues were credited entirely to the interstate jurisdiction while expenses
17 and investment associated with LNP were split between the interstate and
18 intrastate jurisdiction. This burdened the intrastate jurisdiction with part of the
19 cost of LNP, but none of the revenues. Therefore, an adjustment was included in
20 the December 1999 supplement that allocated part of the revenue to the
21 intrastate jurisdiction.
22

1 Such an adjustment is no longer necessary. Beginning in late 1999, the
2 revenues, expenses and investment associated with the provision of LNP were
3 removed entirely from the separation process. This means that none of the costs
4 or revenues associated with LNP are included in the intrastate jurisdiction.
5 Therefore no specific adjustment is needed; the amounts are already excluded
6 from the base.
7

8 **Q. ARE THERE ANY ADJUSTMENTS THAT ARE DIFFERENT FROM THE**
9 **ORIGINAL FILING?**
10

11 **A.** Yes, the adjustment related to the removal of cable services. In the initial filing
12 the revenues, expenses and investment related to this product were inadvertently
13 included in the Company's January 1999 filing. These items, which were never
14 included in the determination of regulated rates, were removed in the December
15 1999 update, my second supplemental filing.
16

17 During 1999, several things have changed with relation to cable services. First, a
18 separate subsidiary, Broadband Services, Inc. (BSI) was incorporated in 1999 to
19 take over this line of business. All new investment related solely to the provision
20 of cable services has been paid for by and recorded on the books of BSI. U S
21 WEST currently has an open docket, Docket No. T-01051B-99-0499, in which it
22 is requesting the transfer of the assets related solely to the provision of cable

1 services from U S WEST Communications to BSI. The adjustment I have made
2 in this update excludes these assets that are pending transfer from the rate base.
3 All revenues and expenses related to the provision of cable services have been
4 excluded from the base prior to the end of period adjustment.
5

6 **Q. DO YOU HAVE ANY NEW ADJUSTMENTS?**
7

8 **A.** I have two. The first relates to the removal of revenues, expenses and
9 investment related to the exchanges in Arizona that the Company is requesting
10 permission to sell in Docket No. T-01051B-99-0737. This adjustment was
11 required in the procedural order relating to the update.
12

13 The second adjustment relates to a new issue, namely that of reciprocal
14 compensation. What the Company is requesting here is an automatic rider that
15 adjusts up and down based on the net payments of reciprocal compensation.
16 What I have included in my adjustment is the annualized value of the first three
17 months of 2000 net expense. No reciprocal compensation is included in the
18 base test year or the end of period adjustment.
19

20 **Q. HOW WOULD SUCH AN AUTOMATIC RIDER WORK?**
21

1 A. It could work several ways. The one U S WEST is suggesting would base each
2 six months or quarter rider on the actual level of payments in the prior six months
3 or quarter. The actuals for each base period would be reported to the
4 Commission and subject to audit at any time.

5
6 **Q. WHY IS THE COMPANY SUGGESTING A MECHANISM SUCH AS THIS?**

7
8 A. Right now net reciprocal compensation is growing very rapidly. In the future, as
9 agreements are modified or renegotiated, this level may drop. In other words,
10 the situation is very volatile. An automatic mechanism would ensure that the
11 Company received no more in rates than it is entitled to, whereas inclusion in the
12 base revenue requirement would ensure that the Company would either over or
13 under collect in the future.

14
15 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

16
17 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE EARNINGS)
OF THE COMPANY, THE FAIR VALUE OF THE) DOCKET NO. T-1051B-99-105
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EXHIBITS

OF

GEORGE REDDING

U S WEST COMMUNICATIONS

May 3, 2000

SUPPLEMENTAL EXHIBITS OF
GEORGE REDDING

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U S WEST
Arizona Intrastate Operations
Revenue Requirement Summary
Test Year Ending December 31, 1999
\$(000)

	<u>Original Cost</u>	<u>Fair Value</u>
1. Adjusted Rate Base	\$ 1,422,099	
2. Adjusted Net Operating Income	43,822	
3. Current Rate of Return (L2/L1)	3.08%	
4. Required Operating Income (L1*L5)	154,430	
5. Required Rate of Return	10.86%	
6. Operating Income Deficiency	110,608	
7. Gross Revenue Conversion Factor	1.7056	
8. Increase in Revenue Requirements (L6*L7)	\$ 188,654	
9. BellCore 3 Year Adjustment Revenue Requirement	(686)	
10. Automatic Adj Mechanism Revenue Requirement	13,252	
11. Increase in Gross Revenue Requirements (L8 + L9 + L10)	\$ 201,220	

U S WEST
Arizona Intrastate Operations
Capital Structure
Test Year Ending December 31, 1999
\$(000)

	Percent of Total Capital	Cost Rate	Weighted Cost
Total Debt	47.60%	7.39%	3.52%
Common Equity	52.40%	14.00%	7.34%
Total Capital	100.00%		10.86%

U S WEST
Arizona Intrastate Operations
Income to Revenue Multiplier
Test Year Ending December 31, 1999
\$(000)

1	Gross Intrastate Revenue	100.00%
2	Less: Uncollectible Revenue (Note a)	1.851%
3	Total Revenue (L1-L2)	98.1491%
4	Less: Taxes on Local Revenue Service (Note b)	0.1066%
5	Taxable Income (L3-L4)	98.0425%
6	Less: Effective State Income Tax (L5 * 8.00%)	7.8434%
7	Less: Effective Federal Income Tax (L5 * 32.00%)	31.5697%
8	Net Operating Earnings (L5-L6-L7)	58.6294%
9	Income to Revenue Multiplier (L1 / L8)	1.7056

Notes:

a. Based on Test Year End of Period Adjustment.

b. Includes Franchise and License taxes and Sales tax assumed.

U S WEST
Arizona Intrastate Operations
Original Cost Rate Base Summary
Test Year Ending December 31, 1999
(\$000)

	[a]	[b]	[c]	[d]=a+b+c	[e]	[f]
<u>Original Cost</u>	Intrastate EOP Rate Base	Commission Adjustments	Proforma Adjustments	Original Cost Rate Base	Gain On BellCore Sale	Automatic Adjustment Clause
1 Telephone Plant In Service	\$ 3,699,107	\$ -	\$ (133,092)	\$ 3,566,015	\$ -	\$ -
2 Short-Term Plant Under Construction	0	0	0	0	0	0
3 Materials and Supplies	18,386	0	0	18,386	0	0
4 Allowance for Cash Working Capital	(24,398)	(14,813)	0	(39,211)	0	0
5 Accumulated Depr & Amort Reserve	(1,818,488)	0	(104,538)	(1,923,025)	0	0
6 Accumulated Deferred Income Tax	(309,060)	0	68,525	(240,535)	0	0
7 Customer Deposits	(5,696)	(2,015)	0	(7,711)	0	0
8 Land Development Agreement Deposits	(18,040)	0	0	(18,040)	0	0
9 Other Assets & Liabilities	0	(686)	66,221	65,535	0	0
10 End-of-Period Rate Base(L1.L9)	\$ 1,541,811	\$ 13,252	\$ (102,883)	\$ 1,421,414	\$ -	\$ -

NOTE: Fair Value is 50% Original Cost and 50% RCND

U S WEST
Arizona Intrastate Operations
End of Period Rate Base - Summary of Rate Base Commission Adjustments
Test Year Ending December 31, 1999
\$(000)

	[a]	[b]	[c]=a+b
	Customer Deposits Adjustment	Cash Working Capital	Summary Commission Adjustments to Rate Base
1 Telephone Plant In Service	\$ -	\$ -	\$ -
2 Short-Term Plant Under Construction	0	0	0
3 Materials and Supplies	0	0	0
4 Allowance for Cash Working Capital	0	(14,813)	(14,813)
5 Accumulated Depr & Amort Reserve	0	0	0
6 Accumulated Deferred Income Tax	0	0	0
7 Customer Deposits	(2,015)	0	(2,015)
8 Land Development Agreement Deposits	0	0	0
9 Other Assets & Liabilities	0	0	0
10 End-of-Period Rate Base(L1.L9)	<u>\$ (2,015)</u>	<u>\$ (14,813)</u>	<u>\$ (16,828)</u>

U S WEST
Arizona Intrastate Operations
End of Period Rate Base - Summary of Proforma Adjustments included
Test Year Ending December 31, 1999
\$(000)

	[a]	[b]	[c]	[d]	[e]	[f]=sum(a.e)
	Depreciation	Pension Asset	OPEB Adjustment	Removal of Cable Franchise	Access Line Sale	Summary Proforma Adjustment Included
1 Telephone Plant In Service	\$ -	\$ -	\$ 1,478	\$ (10,191)	\$ (124,379)	\$ (133,092)
2 Short-Term Plant Under Construction	0	0	0	0	0	0
3 Materials and Supplies	0	0	0	0	0	0
4 Allowance for Cash Working Capital	0	0	0	0	0	0
5 Accumulated Depr & Amort Reserve	(107,968)	0	31	3,400	0	(104,538)
6 Accumulated Deferred Income Tax	43,403	0	4,077	0	21,045	68,525
7 Customer Deposits	0	0	0	0	0	0
8 Land Development Agreement Deposits	0	0	0	0	0	0
9 Other Assets & Liabilities	0	66,221	0	0	0	66,221
10 End-of-Period Rate Base(L1.L9)	\$ (64,565)	\$ 66,221	\$ 5,585	\$ (6,792)	\$ (103,334)	\$ (102,883)

U S WEST
Arizona Intrastate Operations
Income Statement Summary
Test Year Ending December 31, 1999
\$(000)

	[a]	[b]	[c]	[d]=a+b+c	[e]	[f]
	Year Ending December 31, 1999 Intrastate	Commission Adjustments	Proforma Adjustments	Adjusted Test Year	BellCore 3 Year Adjustment	Automatic Adjustment Clause
Revenues						
1 Local Service Revenues	\$ 954,934	\$ 2,249	\$ (28,489)	\$ 928,693	\$ -	\$ 7,932
2 Network Access Service Revenues	121,079	0	(5,827)	115,252	0	0
3 Long Distance Network Service Rev.	30,318	0	(7,905)	22,413	0	0
4 Miscellaneous	142,436	0	(10,594)	131,842	0	0
5 Total Oper. Rev. (L1 thru L4)	1,248,767	2,249	(52,815)	1,198,201	0	7,932
Expenses						
6 Maintenance	266,063	0	16,259	282,322	0	0
7 Engineering Expense	10,710	0	790	11,500	0	0
8 Network Operations	41,575	0	10,624	52,199	0	0
9 Network Administration	2,052	0	285	2,337	0	0
10 Access Expense	20,801	0	2,770	23,571	0	20,522
11 Other	472	0	829	1,301	0	0
12 Total Cost of Svcs & Products(L6 thru L11)	341,672	0	6,048	347,720	0	20,522
13 Customer Operations	190,243	0	29,048	219,291	0	0
14 Corporate Operations	186,490	0	20,485	206,976	0	0
15 Property & Other Taxes	51,586	3	(3,548)	48,040	0	23
16 Uncollectibles	18,644	42	(2,206)	16,481	0	380
17 Tot Selling, Gen. & Admin.(L13 thru L16)	446,964	45	43,779	490,788	0	403
18 Other Operating Income & Expense	18	463	(307)	174	(673)	0
19 Depreciation Expense	239,714	(13)	89,183	328,884	0	0
20 Universal Service Fund	(1,370)	0	1,370	0	0	0
21 Link Up America	(88)	0	(686)	(774)	0	0
22 Total Operating Expense(L12+L17 thru L21)	1,026,910	495	139,387	1,166,792	(673)	20,924
23 Income From Operations (L5-L22)	221,857	1,754	13,252	236,863	673	(12,993)
Taxes						
24 Federal Income Tax	55,903	(922)	(62,059)	(7,078)	217	(4,184)
25 State & Local Income Tax	17,011	(229)	(15,417)	1,365	54	(1,039)
26 Net Operating Income (L23-L24-L25)	\$ 148,943	\$ 2,905	\$ 90,728	\$ 242,576	\$ 402	\$ (7,770)
Other						
27 Nonoperating Income & Expense	19,958	0	0	19,958	0	0
28 Nonoperating Income Tax	230	0	0	230	0	0
29 Net Operating Earnings (L26-L27-L28)	128,755	2,905	90,728	222,388	402	(7,770)
30 Interest Expense	45,442	4,616	0	50,058	0	0
31 Juris Diff & Nonreg Net Income	0	0	0	0	0	0
32 Extraordinary Items	0	0	0	0	0	0
33 Net Income (L29-L30-L31-L32)	\$ 83,313	\$ (1,711)	\$ 90,728	\$ 172,330	\$ 402	\$ (7,770)

U S WEST
Arizona Intrastate Operations
Commission Adjustments Summary
Test Year Ending December 31, 1999
\$(000)

	Removal of Merger Costs	Disallowance of Non Employee Concession	Customer Deposits Adjustment	Interest Synchronization	Subtotal Commission Adjustments
Revenues					
1 Local Service Revenues	\$ -	\$ 2,249	\$ -	\$ -	\$ 2,249
2 Network Access Service Revenues	0	0	0	0	0
3 Long Distance Network Service Rev.	0	0	0	0	0
4 Miscellaneous	0	0	0	0	0
5 Total Oper. Rev. (L1 thru L4)	0	2,249	0	0	2,249
Expenses					
6 Maintenance	0	0	0	0	0
7 Engineering Expense	0	0	0	0	0
8 Network Operations	0	0	0	0	0
9 Network Administration	0	0	0	0	0
10 Access Expense	0	0	0	0	0
11 Other	0	0	0	0	0
12 Total Cost of Svcs & Products(L6 thru L11)	0	0	0	0	0
13 Customer Operations	0	0	0	0	0
14 Corporate Operations	0	0	0	0	0
15 Property & Other Taxes	0	3	0	0	3
16 Uncollectibles	0	42	0	0	42
17 Tot Selling, Gen. & Admin.(L13 thru L16)	0	45	0	0	45
18 Other Operating Income & Expense	0	0	463	0	463
19 Depreciation Expense	(13)	0	0	0	(13)
20 Universal Service Fund	0	0	0	0	0
21 Link Up America	0	0	0	0	0
22 Total Operating Expense(L12+L17 thru L21)	(13)	45	463	0	495
23 Income From Operations (L5-L22)	13	(686)	(463)	0	(1,136)
Taxes					
24 Federal Income Tax	9	13,252	(42)	(1,599)	11,620
25 State & Local Income Tax	2	176	(10)	(397)	(229)
26 Net Operating Income (L23-L24-L25)	\$ 2	\$ (14,114)	\$ (411)	\$ 1,996	\$ (12,527)
Other					
27 Nonoperating Income & Expense	0	0	0	0	0
28 Nonoperating Income Tax	0	0	0	0	0
29 Net Operating Earnings (L26-L27-L28)	2	(14,114)	(411)	1,996	(12,527)
30 Interest Expense	(16)	0	(333)	4,965	4,616
31 Juris Diff & Nonreg Net Income	0	0	0	0	0
32 Extraordinary Items	0	0	0	0	0
33 Net Income (L29-L30-L31-L32)	\$ 18	\$ (14,114)	\$ (78)	\$ (2,969)	\$ (17,143)

U S WEST

Arizona Intrastate Operations
Commission Adjustment

Removal of 1991 Merger Costs

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		(13)
Total Operating Income Taxes		11
Net Operating Income		2
Rate Base		0
Revenue Requirement	\$	(3)

In Docket No. (E1051-89-311), the Arizona Corporation Commission disallowed costs associated with the merger of the three operating companies owned by U S WEST (Mountain States Telephone and Telegraph, Pacific Northwest Bell, Northwestern Bell). The merger was effective January 1, 1991 and the costs are still being amortized. This adjustment removes the amortization of merger costs from the test period.

U S WEST

Arizona Intrastate Operations
Commission Adjustment

Disallowance of Non-Employee Concessions

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	2,249
Operating Expenses		45
Total Operating Income Taxes		886
Net Operating Income		1,318
Rate Base		0
Revenue Requirement	\$	(2,248)

In Decisions 53849, 54843 & 58927, the Arizona Corporation Commission disallowed non-employee concession for retired employees and other special interest groups (i.e. clergy, etc.). This adjustment removes the non-employee concession from test year results.

U S WEST

Arizona Intrastate Operations
Commission Adjustment

Customer Deposits Adjustment

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		463
Total Operating Income Taxes		(52)
Net Operating Income		(411)
Rate Base		(2,015)
Revenue Requirement	\$	328

In Decisions 53849 and 54843 (Docket Nos. E-1051-83-035 and E-1051-84-100) the Arizona Corporation Commission ordered U S WEST to reflect customer deposits as 100% intrastate and to bring the associated interest into regulated operating results. This adjustment reflects the order at end-of-period test year levels.

U S WEST

Arizona Intrastate Operations
Commission Adjustment

Cash Working Capital

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		0
Total Operating Income Taxes		0
Net Operating Income		0
Rate Base		(14,813)
Revenue Requirement	\$	(2,744)

In Decision 54843 (Docket No. E-1051-84-100) the Arizona Corporation Commission adopted Staff's recommendation to exclude non-cash items in the lead-lag studies to determine the amount of cash working capital. This adjustment removes the non-cash items from the rate base.

U S WEST

Arizona Intrastate Operations
Commission Adjustment

Interest Synchronization

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		0
Total Operating Income Taxes		(1,996)
Net Operating Income		1,996
Rate Base		0
Revenue Requirement	\$	(3,405)

In Decisions 54843, 53849 and 58927 (Docket Nos. E-1051-84-100, E-1051-83-035 and E-1051-93-183), the Arizona Corporation Commission ordered synchronization of interest expense. This adjustment synchronizes interest expense to the adjusted rate base for the test year.

U S WEST
Arizona Intrastate Operations
Proforma Adjustments Summary
Test Year Ending December 31, 1999
\$(000)

	[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]=sum(a.g)
	End of Period Annualization	Wage Adjustment	Depreciation	Pension Asset	OPEB Adjustment	Remove Cable Franchise	Access Line Sale	Summary Proforma Adj's
Revenues								
1 Local Service Revenues	\$ 12,444	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (48,865)	\$ (36,421)
2 Network Access Service Revenues	1,983	0	0	0	0	0	(7,810)	(5,827)
3 Long Distance Network Service Rev.	(3,306)	0	0	0	0	0	(4,599)	(7,905)
4 Miscellaneous	(7,192)	0	0	0	0	0	(3,402)	(10,594)
5 Total Oper. Rev. (L1 thru L4)	3,929	0	0	0	0	0	(64,676)	(60,747)
Expenses								
6 Maintenance	1,168	6,527	0	0	8,564	0	0	16,259
7 Engineering Expense	208	143	0	0	439	0	0	790
8 Network Operations	2,315	1,099	0	0	7,210	0	0	10,624
9 Network Administration	103	50	0	0	132	0	0	285
10 Access Expense	(17,752)	0	0	0	0	0	0	(17,752)
11 Other	726	41	0	0	62	0	0	829
12 Total Cost of Svcs & Products(L6 thru L11)	(13,232)	7,860	0	0	16,408	0	(25,510)	(14,474)
13 Customer Operations	23,288	3,984	0	0	10,031	0	(8,255)	29,048
14 Corporate Operations	17,855	1,266	0	0	1,364	0	0	20,485
15 Property & Other Taxes	170	0	0	0	0	0	(3,741)	(3,571)
16 Uncollectibles	(1,469)	0	0	0	0	0	(1,117)	(2,586)
17 Tot Selling, Gen. & Admin.(L13 thru L16)	39,844	5,250	0	0	11,395	0	(13,113)	43,377
18 Other Operating Income & Expense	366	0	0	0	0	0	0	366
19 Depreciation Expense	0	0	107,968	0	0	0	(18,785)	89,183
20 Universal Service Fund	1,370	0	0	0	0	0	0	1,370
21 Link Up America	(29)	(686)	0	0	0	0	0	(715)
22 Total Operating Expense(L12+L17 thru L21)	28,319	12,424	107,968	0	27,803	0	(57,407)	119,107
23 Income From Operations (L5-L22)	(24,390)	13,252	(107,968)	0	(27,803)	0	(7,268)	(154,177)
Taxes								
24 Federal Income Tax	(7,812)	(4,221)	(34,766)	0	(8,953)	0	(2,340)	(58,092)
25 State & Local Income Tax	(1,941)	(1,049)	(8,637)	0	(2,224)	0	(581)	(14,432)
26 Net Operating Income (L23-L24-L25)	\$ (14,637)	\$ 18,522	\$ (64,565)	\$ -	\$ (16,626)	\$ -	\$ (4,347)	(81,653)
Other								
27 Nonoperating Income & Expense	0	0	0	0	0	0	0	0
28 Nonoperating Income Tax	0	0	0	0	0	0	0	0
29 Net Operating Earnings (L26-L27-L28)	(14,637)	18,522	(64,565)	0	(16,626)	0	(4,347)	(81,653)
30 Interest Expense	0	0	0	0	0	0	0	0
31 Juris Diff & Nonreg Net Income	0	0	0	0	0	0	0	0
32 Extraordinary Items	0	0	0	0	0	0	0	0
33 Net Income (L29-L30-L31-L32)	\$ (14,637)	\$ 18,522	\$ (64,565)	\$ -	\$ (16,626)	\$ -	\$ (4,347)	(81,653)

U S WEST

Arizona Intrastate Operations
Proforma Adjustment

End of Period Annualization Adjustment

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	3,929
Operating Expenses		28,319
Total Operating Income Taxes		(9,753)
Net Operating Income		(14,637)
Rate Base		0
Revenue Requirement	\$	24,966

In Decision 58927 (Docket No. E-1051-93-183) the Arizona Corporation Commission ordered U S WEST to synchronize test year revenues and various expenses with the end-of period rate base. This adjustment synchronizes the entire income statement with the end-of-period rate base.

U S WEST

Arizona Intrastate Operations
Proforma Adjustment

Test Year Ended December 31, 1999

Wage and Salary Increase

\$(000)

Operating Revenues	\$	0
Operating Expenses		13,110
Total Operating Income Taxes		(5,270)
Net Operating Income		(7,840)
Rate Base		0
Revenue Requirement	\$	13,373

On March 1, 2000 U S WEST incurred additional salary expenses for management employees. Effective August 15, 2000 U S WEST will incur additional wage expenses for occupational employees. This adjustment reflects the salary and wage increases.

U S WEST

Arizona Intrastate Operations
Proforma Adjustment

Depreciation

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$ 0
Operating Expenses	107,968
Total Operating Income Taxes	(43,403)
Net Operating Income	(64,565)
Rate Base	(64,565)
Revenue Requirement	\$ 98,169

This adjustment reflects the annual impact on the end of period 1999 investment of the April 25, 2000 order in U S WEST Communications' depreciation case , Docket No. T-01051B-97-0689

U S WEST

Arizona Intrastate Operations
Proforma Adjustment

Pension Asset

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		0
Total Operating Income Taxes		0
Net Operating Income		0
Rate Base		66,221
Revenue Requirement	\$	12,267

This adjustment reflects inclusion of the shareholder funded Pension Asset in Rate Base.

U S WEST

Arizona Intrastate Operations
Proforma Adjustment

PBOB Adjustment

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		27,803
Total Operating Income Taxes		(11,177)
Net Operating Income		(16,626)
Rate Base		5,585
Revenue Requirement	\$	29,394

This adjustment is required to reflect Post Employment
Benefits other than Pensions based on SFAS 106.

U S WEST

Arizona Intrastate Operations
Proforma Adjustment

Remove Cable Services Investment

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		0
Total Operating Income Taxes		0
Net Operating Income		0
Rate Base		(6,792)
Revenue Requirement	\$	(1,258)

This adjustment removes Cable Services Investment from U S WEST Communications regulated books. The request to transfer these investments is currently before the Commission in Docket No. T-01051B-99-0499.

U S West Communications

Arizona Intrastate Operations
Ratemaking Adjustment

Arizona Access Line Sale

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	(64,676)
Operating Expenses		(57,407)
Total Operating Income Taxes		(2,921)
Net Operating Income		(4,347)
Rate Base		(103,334)
Revenue Requirement	\$	(11,726)

This adjustment removes the revenue, expenses, and investment of the exchanges being sold to Citizen's Utility Company. This sale is being addressed in Docket No. T-01051B-99-0737.

U S WEST

Arizona Intrastate Operations
Three Year Revenue Requirement Adjustment

Gain from Bellcore Sale

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	0
Operating Expenses		(673)
Total Operating Income Taxes		271
Net Operating Income		402
Rate Base		0
Revenue Requirement	\$	(686)

In Decision 60382 Docket No.(E-1051-97-139) the Arizona Corporation Commission approved U S WEST's sale of its share in Bellcore. The Commission also deferred ratemaking treatment to the next general rate case. Consistent with that order, U S WEST proposes that 50% of the intrastate gain on the sale be amortized to the ratepayers over three years. This adjustment accounts for that proposed treatment.

U S WEST

Arizona Intrastate Operations
Automatic Adjustment Mechanism

Reciprocal Compensation

Test Year Ending December 31, 1999

\$(000)

Operating Revenues	\$	7,932
Operating Expenses		20,924
Total Operating Income Taxes		(2,078)
Net Operating Income		(7,770)
Rate Base		0
Revenue Requirement	\$	13,253

This adjustment sets forth the initial revenue requirement related to reciprocal compensation under an automatic adjustment mechanism. If adopted, the amount shown should be adjusted to the calendar quarter immediately preceding implementation of rates in this docket.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A HEARING)
TO DETERMINE THE EARNINGS OF THE)
COMPANY, THE FAIR VALUE OF THE)
COMPANY FOR RATEMAKING PURPOSES, TO)
FIX A JUST AND REASONABLE RATE OF)
RETURN THEREON AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN)

DOCKET NO. T-1051B-99-105
AFFIDAVIT OF
GEORGE REDDING

STATE OF COLORADO)
:)
COUNTY OF DENVER)

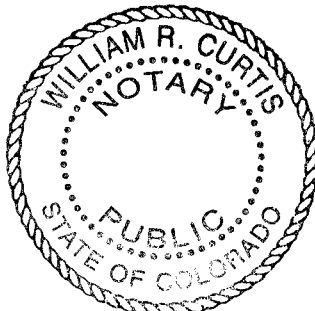
SS

George Redding, of lawful age being first duly sworn, deposes and states:

1. My name is George Redding. I am Director - Regulatory Finance of U S WEST Communications in Denver, Colorado.
2. Attached hereto and made a part hereof for all purposes is my third supplemental testimony.
3. I hereby swear and affirm that my answers contained in the attached third supplemental testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


George Redding

SUBSCRIBED AND SWORN to before me this 28th day of April, 2000.





Notary Public

My Commission Expires:

My Commission Expires 10/28/2003

Arizona Corporation Commission
MISSION DOCKETED

DOCKETED BY 

DOCKET NO. T-1051B-99-105

May 3, 2000

TESTIMONY OF PETER C. CUMMINGS
INDEX OF TESTIMONY

I. TESTIMONY

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COST OF CAPITAL UPDATE	2
Capital Structure	2
Market Required Return Estimate for USWC	2
Recommended Range for Cost of Equity and Fair Return on Equity	5
OVERALL RATE OF RETURN RECOMMENDATION	6

II. EXHIBITS

	Exhibit
Rate of Return Recommendation	PCC-1
Capital Structure and Embedded Cost of Debt	PCC-2
DCF Analysis - Telephone Companies	PCC-3
DCF Analysis - Comparable Companies	PCC-4
CAPM Analysis - Telephone Companies	PCC-5
CAPM Analysis - Comparable Companies	PCC-6
DCF Analysis of S&P 500 Companies	PCC-7
CAPM Analysis of S&P 500 Companies	PCC-8
Equity Risk Premium	PCC-9

EXECUTIVE SUMMARY

1. Current Responsibilities:

My name is Peter C. Cummings and my business address is 1600 Bell Plaza, Room 3005, Seattle, Washington 98191. I am employed by U S WEST Communications, Inc. (USWC) as Director - Finance and Economic Analysis.

My job responsibilities include financial analysis of capital costs and capital structure of U S WEST Communications. I develop cost of capital estimates for company cost studies, capital budgeting, and economic analysis. I also testify in state rate cases on rate of return, capital structure, and other financial issues.

2. Purpose of Testimony:

I am appearing before the Corporation Commission to present an analysis of the cost of capital and capital structure for U S WEST Communications, Inc. (USWC). The purpose of my supplemental direct testimony is to update my previous recommendation to the Commission for a fair rate of return on equity and total capital for USWC.

3. Summary of Testimony:

Update of Capital Structure

The updated capital structure for USWC – Arizona contains 47.6% debt and 52.4% equity and the embedded cost of debt is 7.39%.

Update of Fair Return on Equity Capital

The conclusion of my testimony is that a fair return on the equity capital invested in Arizona is in the range of 13.5% to 14.5% and my specific recommendation is that the Commission authorize a fair return on equity capital of 14.0%.

Overall Return Recommendation

When the fair return on equity capital is combined with the Company's capital structure and debt costs, the overall return requirement is 10.86%. I recommend that the Commission set the authorized rate of return at 10.86%.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.

A. My name is Peter C. Cummings and my business address is 1600 Bell Plaza, Room 3005, Seattle, Washington 98191. I am employed by U S WEST Communications, Inc. (USWC) as Director - Finance and Economic Analysis.

Q. ARE YOU THE SAME PETER C. CUMMINGS THAT FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I am. My work experience and qualifications are described in that testimony.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of this testimony is to update my previous recommendation to the Commission for a fair return on equity and total capital for USWC.

COST OF CAPITAL UPDATE

Capital Structure

Q. HAS USWC'S CAPITAL STRUCTURE CHANGED SINCE YOUR DIRECT TESTIMONY WAS FILED?

A. Yes. The updated capital structure of USWC – Arizona as shown in Exhibit PCC-2 contains 47.6% debt and 52.4% equity. In contrast, the August 1998 capital structure shown in my direct testimony Exhibit PCC-3 contained 41.24% debt and 58.76% equity. The change in capital structure from August 1998 to February 2000 is due to a decrease in book equity primarily due to amortization of the accumulated post retirement benefit obligation and a corresponding increase in short and long term debt financing. The embedded cost of debt is 7.39%.

Market Required Return Estimate for USWC

Q. GIVEN THE VOLATILE CAPITAL MARKET CONDITIONS FOR U S WEST AND QWEST RESULTING FROM THEIR PENDING MERGER, HAVE YOU MADE ANY

**CHANGES IN YOUR APPROACH TO ESTIMATING THE MARKET REQUIRED
RETURN FOR USWC?**

A. Yes. U S WEST is now essentially trading as a derivative of Qwest stock subject to the pricing conditions of the merger agreement. Valuation of U S WEST is further complicated by a relatively large dividend payout until the merger is consummated and a very small dividend payout thereafter. Furthermore, speculation about further business combinations affecting U S WEST and Qwest has added significantly to the price volatility of both stocks. In this market environment the best approach to estimating the market required return for USWC is to specifically exclude U S WEST from the analysis and rely upon market required return estimates for other telephone companies and companies that are risk-comparable to USWC.

**Q. PLEASE SUMMARIZE THE RESULTS OF YOUR UPDATED ANALYSIS OF THE
MARKET REQUIRED RETURN FOR USWC.**

A. Using capital market data from the last two weeks in February, I updated the DCF and CAPM analyses for telephone companies and comparable risk companies using the same procedures as in my direct testimony. The results of these analyses are shown in Exhibits PC-3 through PC-6. As discussed above, I excluded

1 U S WEST from the DCF and CAPM analyses. The following table summarizes the
2 market required return on equity estimates for USWC:

3	CAPM	Comparable Companies	13.3%
4	CAPM	Telephone Companies	13.6%
5	DCF	Comparable Companies	13.9%
6	DCF	Telephone Companies	14.3%

7 The market required return estimates range from 13.3% to 14.3% with a midpoint of
8 13.8% and an average of 13.8%.

9
10 **Q. DID YOU ALSO UPDATE THE REASONABLENESS CHECKS ?**

11
12 **A.** Yes. The expected return on the market has increased from 14.5% (as shown in my
13 direct testimony) to 15.6%. The expected return on the market is the average of
14 DCF and CAPM estimates of the required return on the Standard & Poor's 500
15 stocks. The current DCF estimate for the S&P 500 is 15.8% as shown in Exhibit
16 PCC-7 and the CAPM estimate is 15.3% as shown in Exhibit PCC-8. The increase
17 in market required return for equity investment in USWC is accompanied by an
18 increase in the market required for equity investment in the market as a whole.

1 The updated equity risk premium reasonableness test in Exhibit PCC-9 shows a
2 higher, but narrower range of 14.1% to 14.3%. The current market required return
3 estimate for USWC of 13.8% is below the risk premium range.
4

5 **Recommended Range for Cost of Equity and Fair Return on Equity**
6

7 **Q. WHAT IS YOUR UPDATED RECOMMENDATION FOR A FAIR RETURN ON**
8 **EQUITY FOR USWC.**
9

10 **A.** As explained in my direct testimony, the market required return on equity is not the
11 same as the cost of equity. The cost of equity is slightly greater due to stock
12 issuance costs. The market required return estimates for USWC need to be
13 adjusted by a factor of 1.17% to reflect the cost of equity capital which includes
14 stock issuance expenses. The adjustment is as follows:

<u>Market Req Return</u>	x	<u>Adj Factor</u>	=	<u>Cost of Equity</u>
13.3% to 14.3%		1.0117		13.5% to 14.5%

15
16
17 My recommended range for a fair return on equity is the range of cost of equity
18 estimates of 13.5% to 14.5% and my specific recommendation for the Commission
19 allowed return on equity is the midpoint of the range, 14.0%
20

OVERALL RATE OF RETURN RECOMMENDATION

**Q. WHAT IS YOUR UPDATED RECOMMENDATION FOR A FAIR OVERALL
RETURN ON RATE BASE FOR USWC?**

A. Combining the fair return on book equity and USWC's capital structure and
embedded debt cost, my recommendation for a fair overall return on rate base is
10.86% which is calculated as follows:

	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	47.6%	7.39%	3.52%
Equity	52.4%	14.0%	<u>7.34%</u>
Overall Return			10.86%

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC. A)
COLORADO CORPORATION, FOR A HEARING)
TO DETERMINE THE EARNINGS OF THE)
COMPANY FOR RATEMAKING PURPOSES)
TO FIX A JUST AND REASONABLE RATE OF)
RETURN THEREON, AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN.)**

**DOCKET NO.
T-1051B-99-105**

SUPPLEMENTAL DIRECT TESTIMONY EXHIBITS

OF

PETER C. CUMMINGS

U S WEST COMMUNICATIONS

May 3, 2000

EXHIBIT OF PETER C. CUMMINGS

INDEX OF SUPPLEMENTAL DIRECT EXHIBITS

	Exhibit
Rate of Return Recommendation	PCC-1
Capital Structure and Embedded Cost of Debt	PCC-2
DCF Analysis - Telephone Companies	PCC-3
DCF Analysis - Comparable Companies	PCC-4
CAPM Analysis - Telephone Companies	PCC-5
CAPM Analysis - Comparable Companies	PCC-6
DCF Analysis of S&P 500 Companies	PCC-7
CAPM Analysis of S&P 500 Companies	PCC-8
Equity Risk Premium	PCC-9

RATE OF RETURN RECOMMENDATIONS

Return on Equity Range	13.5%	to	14.5%
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Point Recommendation	14.0%
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Overall Return Range	10.59%	to	11.12%
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Point Recommendation	10.86%
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U S WEST COMMUNICATIONS - Arizona
Capital Structure - February 2000

	\$(000)	Cost	Percent of Capital
SHORT TERM DEBT			
Notes Payable	\$62,313	5.92%	3.22%
Current Maturities	\$88,684	7.09%	4.58%
Total Short Term Debt	\$150,997	6.61%	7.80%
LONG TERM DEBT			
Funded and Other LT Debt	\$750,608	7.56%	38.77%
Capital Leases	\$19,376	6.68%	1.00%
Total Long Term Debt	\$769,984	7.54%	39.77%
TOTAL DEBT	\$920,981	7.39%	47.6%
COMMON EQUITY	\$1,015,260		52.4%
TOTAL CAPITAL	\$1,936,240		100.0%

**DCF Model
Telephone Companies**

Company	<u>Expected Dividends</u>						<u>Growth Rate</u> G	<u>Equity Cost</u> H = F+G
	<u>Price</u> A	<u>Qtr 1</u> B	<u>Qtr 2</u> C	<u>Qtr 3</u> D	<u>Qtr 4</u> E	<u>Yield</u> F		
Bell Atlantic	51.181	0.385	0.385	0.385	0.385	3.2%	11.0%	14.2%
BellSouth	39.819	0.209	0.209	0.209	0.209	2.2%	10.0%	12.2%
SBC Communications	37.594	0.274	0.274	0.274	0.274	3.1%	12.5%	15.6%
GTE Corp	60.919	0.470	0.470	0.470	0.470	3.3%	11.7%	15.0%

Mean

14.3%

Notes:

Expected dividends (current and future payments) are based upon historical increase patterns for each company

Dividend Yield is taken from the quarterly DCF calculation

$$\frac{D(1+K)^{.75} + D(1+K)^{.50} + D(1+K)^{.25} + D(1+K)^{.0}}{\text{Price}}$$

10-day average closing prices from Microsoft Investor Web Site
(for the period 2/15/00 thru 2/29/00)

Growth rate from Institutional Brokers Estimate System (IBES)

DCF Model
Comparable Risk Companies

Company	Expected Dividends						Growth Rate G	Equity Cost H = F+G
	Price A	Qtr 1 B	Qtr 2 C	Qtr 3 D	Qtr 4 E	Yield F		
Abbott Laboratories	33.213	0.190	0.190	0.190	0.190	2.4%	12.0%	14.4%
Albertsons	26.200	0.205	0.205	0.205	0.205	3.3%	14.0%	17.3%
Anheuser-Busch Cos	61.325	0.300	0.300	0.330	0.330	2.1%	10.0%	12.1%
Brown-Forman Cl B	49.388	0.310	0.310	0.310	0.339	2.7%	9.3%	12.0%
Deluxe Corp	23.463	0.370	0.370	0.370	0.370	6.7%	12.0%	18.7%
Dover Corp	38.250	0.115	0.115	0.131	0.131	1.4%	14.0%	15.4%
Dow Jones & Co	61.432	0.250	0.250	0.250	0.250	1.7%	11.0%	12.7%
DPL Inc	20.907	0.235	0.235	0.235	0.235	4.7%	6.0%	10.7%
Duke Energy	49.831	0.550	0.550	0.550	0.550	4.6%	9.0%	13.6%
Electronic Data Systems	68.338	0.150	0.150	0.150	0.150	0.9%	15.5%	16.4%
Emerson Electric	48.244	0.358	0.358	0.358	0.396	3.2%	10.8%	14.0%
FPL Group	39.575	0.540	0.540	0.540	0.540	5.7%	6.0%	11.7%
Gannett Co	63.642	0.210	0.210	0.235	0.235	1.5%	12.0%	13.5%
Gillette Co	36.922	0.148	0.170	0.170	0.170	1.9%	15.0%	16.9%
Illinois Tool Works	56.057	0.180	0.180	0.203	0.203	1.4%	13.0%	14.4%
International Bus. Mach.	110.763	0.120	0.136	0.136	0.136	0.5%	13.0%	13.5%
IPALCO Enterprises	17.031	0.160	0.160	0.160	0.160	3.9%	6.5%	10.4%
Johnson & Johnson	76.138	0.280	0.316	0.316	0.316	1.7%	13.0%	14.7%
Leggett & Platt Inc	16.400	0.100	0.100	0.100	0.100	2.6%	15.0%	17.6%
Eli Lilly and Company	59.313	0.260	0.260	0.260	0.260	1.9%	15.0%	16.9%
MBIA Inc	38.663	0.205	0.205	0.230	0.230	2.4%	12.0%	14.4%
McDonalds Corp	32.356	0.000	0.000	0.000	0.220	0.7%	12.5%	13.2%
Minnesota Mining Mfg Co	88.844	0.580	0.580	0.580	0.580	2.7%	11.0%	13.7%
Northern States Power	18.100	0.363	0.384	0.384	0.384	8.8%	6.0%	14.8%
OGE Energy Corp	18.444	0.333	0.333	0.333	0.333	7.5%	4.5%	12.0%
Otter Tail Power	37.845	0.510	0.510	0.510	0.510	5.6%	5.0%	10.6%
Pitney Bowes Inc	50.044	0.285	0.285	0.285	0.285	2.4%	14.0%	16.4%
Vulcan Materials	41.088	0.210	0.210	0.210	0.210	2.2%	12.0%	14.2%
Washington Post Cl B	490.088	1.350	1.350	1.350	1.485	1.2%	10.0%	11.2%
WPS Resources Corp	24.525	0.505	0.505	0.519	0.519	8.7%	2.8%	11.5%
Mean								14.0%
Truncated Mean							(Eliminate the High and Low Estimates)	13.9%

Notes:

Expected dividends (current and future payments) are based upon historical increase patterns for each company

Dividend Yield is from the quarterly DCF formula: $\frac{D(1+K)^{.75} + D(1+K)^{.50} + D(1+K)^{.25} + D(1+K)^0}{\text{Price}}$

10-day average closing prices from Microsoft Investor Web Site for the period 2/15/00 through 2/29/00

Growth Rates are from IBES.

**CAPM - Intermediate Term Bonds
Telephone Companies**

Company	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D
Bell Atlantic	6.57%	0.81	8.9%	7.2%	13.8%
BellSouth	6.57%	0.72	8.9%	6.4%	13.0%
SBC Communications	6.57%	0.84	8.9%	7.5%	14.1%
GTE Corp	6.57%	0.84	8.9%	7.5%	14.1%
Mean		0.80			13.8%

Notes: The CAPM cost of equity estimate formula is:

$$K = \text{Risk Free Rate} + (\text{Beta} \times \text{Market Risk Premium})$$

Risk Free rate is the average of the 3-yr, 5-yr, and 10-yr

U.S. Treasury bond yields from the Federal Reserve

Statistical Release -- the H15 Report

(For the period 2/15/00 through 2/29/00)

Beta is average of Merrill Lynch and Value Line.

Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.

EX-POST is the arithmetic mean risk premium for

Market Results 1926-1999 from Ibbotson Associates

(Stocks, Bonds, Bills & Inflation 2000 Yearbook)

EX-ANTE risk premium is the current S&P DCF equity

estimate minus the intermed. term Treasury bond yields

**CAPM - Long Term Bonds
Telephone Companies**

Company	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D
Bell Atlantic	6.18%	0.81	8.9%	7.2%	13.4%
BellSouth	6.18%	0.72	8.9%	6.4%	12.6%
SBC Communications	6.18%	0.84	8.9%	7.5%	13.7%
GTE Corp	6.18%	0.84	8.9%	7.5%	13.7%
Mean		0.80			13.4%

Notes: The CAPM cost of equity estimate formula is:

$$K = \text{Risk Free Rate} + (\text{Beta} \times \text{Market Risk Premium})$$

Risk Free rate is the 30 year U.S. Treasury bond yield from the
Federal Reserve Statistical Release -- the H15 Report
(For the period 2/15/00 through 2/29/00)

Beta is average of Merrill Lynch and Value Line.

Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.

EX-POST is the arithmetic mean risk premium for
Market Results 1926-1999 from Ibbotson Associates
(Stocks, Bonds, Bills & Inflation 2000 Yearbook)

EX-ANTE risk premium is the current S&P DCF equity
estimate minus the long term Treasury bond yield.

**CAPM - Intermediate Term Bonds
Comparable Risk Companies**

Company	Risk Free Rate	Average Beta	Market Risk Premium	Beta x MRP D = BxC	Equity Cost E = A+D
	A	B	C		
Abbott Laboratories	6.57%	0.94	8.9%	8.4%	15.0%
Albertsons	6.57%	0.59	8.9%	5.3%	11.9%
Anheuser-Busch Cos	6.57%	0.71	8.9%	6.3%	12.9%
Brown-Foreman CI B	6.57%	0.75	8.9%	6.7%	13.3%
Deluxe Corp	6.57%	0.90	8.9%	8.0%	14.6%
Dover Corp	6.57%	0.88	8.9%	7.8%	14.4%
Dow Jones & Co	6.57%	0.78	8.9%	6.9%	13.5%
DPL Inc	6.57%	0.51	8.9%	4.5%	11.1%
Duke Energy	6.57%	0.41	8.9%	3.6%	10.2%
Electronic Data Systems	6.57%	1.02	8.9%	9.1%	15.7%
Emerson Electric	6.57%	0.87	8.9%	7.7%	14.3%
FPL Group	6.57%	0.43	8.9%	3.8%	10.4%
Gannett Co	6.57%	0.94	8.9%	8.4%	15.0%
Gillette Co	6.57%	1.03	8.9%	9.2%	15.8%
Illinois Tool Works	6.57%	1.05	8.9%	9.3%	15.9%
International Bus. Mach.	6.57%	1.03	8.9%	9.2%	15.8%
IPALCO Enterprises	6.57%	0.40	8.9%	3.6%	10.2%
Johnson & Johnson	6.57%	0.97	8.9%	8.6%	15.2%
Leggett & Platt Inc	6.57%	1.15	8.9%	10.2%	16.8%
Eli Lilly and Company	6.57%	0.98	8.9%	8.7%	15.3%
MBIA Inc	6.57%	1.05	8.9%	9.3%	15.9%
McDonalds Corp	6.57%	0.84	8.9%	7.5%	14.1%
Minnesota Mining Mfg Co	6.57%	0.81	8.9%	7.2%	13.8%
Northern States Power	6.57%	0.53	8.9%	4.7%	11.3%
OGE Energy Corp	6.57%	0.38	8.9%	3.4%	10.0%
Otter Tail Power	6.57%	0.50	8.9%	4.5%	11.1%
Pitney Bowes Inc	6.57%	0.87	8.9%	7.7%	14.3%
Vulcan Materials	6.57%	0.76	8.9%	6.8%	13.4%
Washington Post CI B	6.57%	0.71	8.9%	6.3%	12.9%
WPS Resources Corp	6.57%	0.50	8.9%	4.5%	11.1%
Mean		0.78			13.5%
Truncated Mean					13.5%
(Eliminate the High and Low Estimates)					

Notes:

The CAPM cost of equity estimate formula is: $K = \text{Risk Free Rate} + (\text{Beta} \times \text{Market Risk Premium})$

Risk Free rate is the average of the 3-yr, 5-yr, and 10-yr U.S. Treasury bond yields from Federal Reserve Statistical Release -- the H15 Report (For the period 2/15/00 through 2/29/00)

Beta is average of Merrill Lynch and Value Line.

Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.

EX-POST is the arithmetic mean risk premium for 1926-1999 from Ibbotson Associates 2000 Yearbook

EX-ANTE risk premium is the current S&P DCF equity estimate minus the intermediate term Treasury bond yields

**CAPM - Long Term Bonds
Comparable Risk Companies**

Company	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D
Abbott Laboratories	6.18%	0.94	8.9%	8.4%	14.6%
Albertsons	6.18%	0.59	8.9%	5.3%	11.5%
Anheuser-Busch Cos	6.18%	0.71	8.9%	6.3%	12.5%
Brown-Foreman CI B	6.18%	0.75	8.9%	6.7%	12.9%
Deluxe Corp	6.18%	0.90	8.9%	8.0%	14.2%
Dover Corp	6.18%	0.88	8.9%	7.8%	14.0%
Dow Jones & Co	6.18%	0.78	8.9%	6.9%	13.1%
DPL Inc	6.18%	0.51	8.9%	4.5%	10.7%
Duke Energy	6.18%	0.41	8.9%	3.6%	9.8%
Electronic Data Systems	6.18%	1.02	8.9%	9.1%	15.3%
Emerson Electric	6.18%	0.87	8.9%	7.7%	13.9%
FPL Group	6.18%	0.43	8.9%	3.8%	10.0%
Gannett Co	6.18%	0.94	8.9%	8.4%	14.6%
Gillette Co	6.18%	1.03	8.9%	9.2%	15.4%
Illinois Tool Works	6.18%	1.05	8.9%	9.3%	15.5%
International Bus. Mach.	6.18%	1.03	8.9%	9.2%	15.4%
IPALCO Enterprises	6.18%	0.40	8.9%	3.6%	9.8%
Johnson & Johnson	6.18%	0.97	8.9%	8.6%	14.8%
Leggett & Platt Inc	6.18%	1.15	8.9%	10.2%	16.4%
Eli Lilly and Company	6.18%	0.98	8.9%	8.7%	14.9%
MBIA Inc	6.18%	1.05	8.9%	9.3%	15.5%
McDonalds Corp	6.18%	0.84	8.9%	7.5%	13.7%
Minnesota Mining Mfg Co	6.18%	0.81	8.9%	7.2%	13.4%
Northern States Power	6.18%	0.53	8.9%	4.7%	10.9%
OGE Energy Corp	6.18%	0.38	8.9%	3.4%	9.6%
Otter Tail Power	6.18%	0.50	8.9%	4.5%	10.7%
Pitney Bowes Inc	6.18%	0.87	8.9%	7.7%	13.9%
Vulcan Materials	6.18%	0.76	8.9%	6.8%	13.0%
Washington Post CI B	6.18%	0.71	8.9%	6.3%	12.5%
WPS Resources Corp	6.18%	0.50	8.9%	4.5%	10.7%
Mean		0.78			13.1%
Truncated Mean					13.1%
(Eliminate the High and Low Estimates)					

Notes:

The CAPM cost of equity estimate formula is: $K = \text{Risk Free Rate} + (\text{Beta} \times \text{Market Risk Premium})$

Risk Free rate is the average of the 30yr U.S. Treasury bond yields from Federal Reserve

Statistical Release -- the H15 Report (For the period 2/15/00 through 2/29/00)

Beta is average of Merrill Lynch and Value Line.

Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.

EX-POST is the arithmetic mean risk premium for 1926-1999 from Ibbotson Associates 2000 Yearbook

EX-ANTE risk premium is the current S&P DCF equity estimate minus the intermediate term Treasury bond yields

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

Source: S&P Compustat Data Base

Source Date: February 29, 2000

<u>S&P Company Name</u>	<u>Current Dividend</u> A	<u>Current Price</u> B	<u>Expected Dividend Yield</u> C = (calc)	<u>Expected IBES LT Growth</u> D	<u>Market Required Return</u> (Div Yld + Growth) E = C + D
ABBOTT LABORATORIES	0.680	33.000	2.2%	12.0%	14.2%
ADOBE SYSTEMS INC	0.100	102.000	0.1%	20.0%	20.1%
AETNA INC	0.800	41.125	2.1%	14.5%	16.6%
AFLAC INC	0.300	36.562	0.9%	15.0%	15.9%
AIR PRODUCTS & CHEMICALS INC	0.720	25.750	3.0%	11.5%	14.5%
ALBERTO-CULVER CO -CL B	0.260	21.375	1.3%	11.0%	12.3%
ALBERTSONS INC	0.720	24.500	3.1%	14.0%	17.1%
ALCAN ALUMINIUM LTD	0.600	33.000	1.9%	7.0%	8.9%
ALCOA INC	0.805	68.500	1.2%	9.5%	10.7%
ALLEGHENY TECHNOLOGIES INC	1.280	16.938	8.0%	12.0%	20.0%
ALLERGAN INC	0.280	50.312	0.6%	18.5%	19.1%
ALLSTATE CORP	0.600	19.688	3.2%	10.0%	13.2%
ALLTEL CORP	1.280	58.000	2.4%	15.0%	17.4%
AMERADA HESS CORP	0.600	50.562	1.2%	5.0%	6.2%
AMEREN CORP	2.540	30.000	8.6%	3.0%	11.6%
AMERICAN ELECTRIC POWER	2.400	28.125	8.7%	3.0%	11.7%
AMERICAN EXPRESS	0.900	134.188	0.7%	14.0%	14.7%
AMERICAN GENERAL CORP	1.600	52.188	3.2%	12.0%	15.2%
AMERICAN GREETINGS -CL A	0.800	17.250	4.9%	10.0%	14.9%
AMERICAN HOME PRODUCTS CORP	0.900	43.500	2.2%	12.5%	14.7%
AMERICAN INTERNATIONAL GROUF	0.200	88.438	0.2%	14.0%	14.2%
AMSOUTH BANCORPORATION	0.800	14.312	5.9%	10.0%	15.9%
ANADARKO PETROLEUM CORP	0.200	30.750	0.7%	15.0%	15.7%
ANHEUSER-BUSCH COS INC	1.200	64.000	2.0%	10.0%	12.0%
AON CORP	0.840	21.062	4.2%	12.0%	16.2%
APACHE CORP	0.280	36.500	0.8%	13.5%	14.3%
ARCHER-DANIELS-MIDLAND CO	0.200	10.062	2.1%	10.5%	12.6%
ARMSTRONG WORLD INDS INC	1.920	19.000	10.6%	10.0%	20.6%
ASHLAND INC	1.100	31.125	3.7%	8.0%	11.7%
ASSOC FST CAPITAL CP -CL A	0.260	19.875	1.4%	16.0%	17.4%
AT&T CORP	0.880	49.375	1.9%	13.0%	14.9%
ATLANTIC RICHFIELD CO	2.850	71.000	4.2%	9.0%	13.2%
AUTODESK INC	0.240	44.688	0.6%	18.0%	18.6%
AUTOMATIC DATA PROCESSING	0.350	43.562	0.9%	15.0%	15.9%
AVERY DENNISON CORP	1.080	60.688	1.9%	13.0%	14.9%
AVON PRODUCTS	0.720	27.062	2.8%	13.0%	15.8%
BAKER-HUGHES INC	0.460	25.875	1.9%	15.0%	16.9%
BALL CORP	0.600	26.812	2.4%	12.0%	14.4%
BANK OF AMERICA CORP	2.000	46.000	4.6%	12.0%	16.6%
BANK OF NEW YORK CO INC	0.640	33.250	2.0%	12.0%	14.0%
BANK ONE CORP	1.680	25.875	6.9%	12.0%	18.9%
BARD (C.R.) INC	0.800	39.500	2.1%	12.0%	14.1%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

Source: S&P Compustat Data Base

Source Date: February 29, 2000

<u>S&P Company Name</u>	<u>Current Dividend</u> A	<u>Current Price</u> B	<u>Expected Dividend Yield</u> C = (calc)	<u>Expected IBES LT Growth</u> D	<u>Market Required Return</u> (Div Yld+Growth) E = C + D
BARRICK GOLD CORPORATION	0.200	16.312	1.3%	10.0%	11.3%
BAUSCH & LOMB INC	1.040	52.750	2.1%	15.0%	17.1%
BAXTER INTERNATIONAL INC	1.164	54.500	2.3%	13.0%	15.3%
BB&T CORP	0.800	23.500	3.6%	12.0%	15.6%
BEAR STEARNS COMPANIES INC	0.571	39.250	1.5%	12.5%	14.0%
BECTON DICKINSON & CO	0.370	31.000	1.3%	13.0%	14.3%
BELL ATLANTIC CORP	1.540	48.938	3.3%	11.0%	14.3%
BELLSOUTH CORP	0.760	40.562	2.0%	10.0%	12.0%
BEMIS CO	0.920	29.750	3.3%	12.0%	15.3%
BESTFOODS	1.060	41.938	2.7%	10.0%	12.7%
BIOMET INC	0.140	33.000	0.5%	15.0%	15.5%
BLACK & DECKER CORP	0.480	32.938	1.6%	15.0%	16.6%
BLOCK H & R INC	1.100	43.875	2.7%	15.0%	17.7%
BOEING CO	0.560	36.938	1.6%	15.0%	16.6%
BOISE CASCADE CORP	0.600	29.812	2.0%	3.0%	5.0%
BRIGGS & STRATTON	1.200	33.438	3.7%	8.0%	11.7%
BRISTOL MYERS SQUIBB	0.860	57.250	1.6%	13.0%	14.6%
BROWN-FORMAN -CL B	1.240	47.625	2.7%	9.3%	12.0%
BRUNSWICK CORP	0.500	17.688	3.0%	12.5%	15.5%
BURLINGTON RESOURCES INC	0.550	27.625	2.1%	15.0%	17.1%
CAMPBELL SOUP CO	0.900	28.375	3.3%	10.0%	13.3%
CAPITAL ONE FINL CORP	0.107	36.812	0.3%	23.0%	23.3%
CARDINAL HEALTH INC	0.100	41.812	0.3%	20.0%	20.3%
CARNIVAL CORP	0.420	28.812	1.6%	16.4%	18.0%
CAROLINA POWER & LIGHT	2.000	29.750	6.9%	5.0%	11.9%
CATERPILLAR INC	1.300	35.062	3.9%	10.0%	13.9%
CENTEX CORP	0.160	19.688	0.9%	12.5%	13.4%
CENTRAL & SOUTH WEST CORP	1.740	16.812	10.5%	3.0%	13.5%
CENTURYTEL INC	0.180	33.625	0.6%	15.0%	15.6%
CHAMPION INTERNATIONAL CORP	0.400	51.750	0.8%	5.5%	6.3%
CHASE MANHATTAN CORP	1.640	79.625	2.2%	12.0%	14.2%
CHEVRON CORP	2.600	74.688	3.6%	8.0%	11.6%
CHUBB CORP	1.280	49.188	2.8%	12.0%	14.8%
CIGNA CORP	1.200	73.812	1.7%	13.0%	14.7%
CINCINNATI FINANCIAL CORP	0.680	29.875	2.4%	8.0%	10.4%
CINERGY CORP	1.800	21.375	8.6%	4.0%	12.6%
CIRCUIT CITY STR CRCT CTY GP	0.070	40.438	0.2%	18.0%	18.2%
CITIGROUP INC	0.560	51.812	1.2%	13.5%	14.7%
CLOROX CO/DE	0.800	40.438	2.1%	13.0%	15.1%
CMS ENERGY CORP	1.460	16.750	9.2%	10.0%	19.2%
COASTAL CORP	0.250	42.062	0.6%	12.0%	12.6%
COCA-COLA CO	0.640	48.625	1.4%	14.0%	15.4%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

Source: S&P Compustat Data Base
Source Date: February 29, 2000

<u>S&P Company Name</u>	<u>Current Dividend</u> A	<u>Current Price</u> B	<u>Expected Dividend Yield</u> C = (calc)	<u>Expected IBES LT Growth</u> D	<u>Market Required Return</u> (Div Yld + Growth) E = C + D
COCA-COLA ENTERPRISES	0.160	23.375	0.8%	22.5%	23.3%
COLGATE-PALMOLIVE CO	0.630	52.188	1.3%	13.0%	14.3%
COLUMBIA ENERGY GROUP	0.900	59.000	1.6%	10.5%	12.1%
COLUMBIA/HCA HLTHCR -VTG	0.080	19.312	0.4%	15.0%	15.4%
COMCAST CORP -CL A SPL	0.047	42.500	0.1%	15.5%	15.6%
COMERICA INC	1.440	36.812	4.1%	11.0%	15.1%
COMPAQ COMPUTER CORP	0.100	25.125	0.4%	20.0%	20.4%
COMPUTER ASSOCIATES INTL INC	0.080	64.250	0.1%	16.5%	16.6%
CONAGRA INC	0.814	16.375	5.2%	11.0%	16.2%
CONOCO INC	0.760	19.688	4.0%	7.5%	11.5%
CONSECO INC	0.600	14.625	4.4%	15.0%	19.4%
CONSOLIDATED EDISON INC	2.140	27.562	7.9%	3.5%	11.4%
CONSTELLATION ENERGY CORP	1.680	29.750	5.8%	5.0%	10.8%
COOPER INDUSTRIES INC	1.320	30.250	4.6%	10.0%	14.6%
COOPER TIRE & RUBBER	0.420	10.812	4.1%	9.0%	13.1%
COORS (ADOLPH) -CL B	0.660	43.875	1.6%	10.0%	11.6%
CORNING INC	0.720	188.000	0.4%	17.0%	17.4%
COUNTRYWIDE CREDIT IND INC	0.400	24.938	1.7%	13.0%	14.7%
CRANE CO	0.400	19.875	2.1%	12.0%	14.1%
CROWN CORK & SEAL CO INC	1.000	14.000	7.5%	10.0%	17.5%
CSX CORP	1.200	22.188	5.7%	10.0%	15.7%
CUMMINS ENGINE	1.200	33.312	3.7%	8.0%	11.7%
CVS CORP	0.230	35.000	0.7%	17.0%	17.7%
DANA CORP	1.240	21.375	6.1%	11.0%	17.1%
DANAHER CORP	0.060	40.812	0.2%	16.0%	16.2%
DARDEN RESTAURANTS INC	0.080	13.188	0.6%	11.5%	12.1%
DEERE & CO	0.880	35.750	2.6%	10.0%	12.6%
DELPHI AUTOMOTIVE SYS CORP	0.280	16.688	1.8%	10.0%	11.8%
DELTA AIR LINES INC	0.100	45.625	0.2%	6.0%	6.2%
DELUXE CORP	1.480	23.438	6.7%	12.0%	18.7%
DILLARDS INC -CL A	0.160	17.375	1.0%	10.0%	11.0%
DISNEY (WALT) COMPANY	0.210	33.500	0.7%	15.0%	15.7%
DOLLAR GENERAL	0.128	20.938	0.7%	23.0%	23.7%
DOMINION RESOURCES INC	2.580	36.688	7.3%	7.5%	14.8%
DONNELLEY (R R) & SONS CO	0.880	19.125	4.9%	12.0%	16.9%
DOVER CORP	0.460	38.562	1.3%	14.0%	15.3%
DOW CHEMICAL	3.480	108.500	3.3%	8.0%	11.3%
DOW JONES & CO INC	0.960	62.375	1.6%	11.0%	12.6%
DTE ENERGY CO	2.060	30.188	7.0%	5.0%	12.0%
DU PONT (E I) DE NEMOURS	1.400	50.500	2.9%	10.0%	12.9%
DUKE ENERGY CORP	2.200	48.500	4.7%	9.0%	13.7%
DUN & BRADSTREET CORP	0.740	26.188	3.0%	10.5%	13.5%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

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Source Date: February 29, 2000

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EASTERN ENTERPRISES	1.720	57.875	3.1%	6.5%	9.6%
EASTMAN CHEMICAL CO	1.760	35.938	5.1%	8.0%	13.1%
EASTMAN KODAK CO	1.760	57.312	3.2%	10.0%	13.2%
EATON CORP	1.760	74.938	2.5%	10.0%	12.5%
ECOLAB INC	0.420	28.250	1.6%	15.0%	16.6%
EDISON INTERNATIONAL	1.080	26.250	4.3%	10.0%	14.3%
EL PASO ENERGY CORP/DE	0.800	37.062	2.3%	13.0%	15.3%
ELECTRONIC DATA SYSTEMS CORP	0.600	64.500	1.0%	15.5%	16.5%
EMERSON ELECTRIC CO	1.430	45.562	3.3%	10.8%	14.1%
ENGELHARD CORP	0.400	13.625	3.1%	12.8%	15.9%
ENRON CORP	0.500	68.750	0.8%	15.0%	15.8%
ENTERGY CORP	1.200	20.250	6.1%	5.0%	11.1%
EQUIFAX INC	0.370	21.188	1.9%	15.0%	16.9%
EXXON MOBIL CORP	1.760	75.312	2.4%	8.0%	10.4%
FANNIE MAE	1.080	53.000	2.2%	13.2%	15.4%
FIFTH THIRD BANCORP	0.960	52.062	2.0%	15.0%	17.0%
FIRST DATA CORP	0.080	45.000	0.2%	14.0%	14.2%
FIRST UNION CORP (N C)	1.880	29.500	6.7%	11.0%	17.7%
FIRSTAR CORP	0.650	17.812	3.9%	15.0%	18.9%
FIRSTENERGY CORP	1.500	18.500	8.3%	5.0%	13.3%
FLEETBOSTON FINANCIAL CORP	1.200	27.250	4.6%	11.0%	15.6%
FLORIDA PROGRESS CORP	2.180	42.625	5.2%	5.0%	10.2%
FLUOR CORP	1.000	28.438	3.7%	11.5%	15.2%
FORD MOTOR CO	2.000	41.625	5.0%	7.0%	12.0%
FORT JAMES CORP	0.600	18.812	3.4%	13.5%	16.9%
FORTUNE BRANDS INC	0.920	21.875	4.5%	11.9%	16.4%
FPL GROUP INC	2.080	38.625	5.5%	6.0%	11.5%
FRANKLIN RESOURCES INC	0.240	27.188	0.9%	14.0%	14.9%
FREEMT MCMOR COP&GLD -CL B	0.200	13.750	1.6%	22.0%	23.6%
GANNETT CO	0.840	65.188	1.4%	12.0%	13.4%
GAP INC	0.089	48.312	0.2%	20.0%	20.2%
GENERAL DYNAMICS CORP	0.960	43.250	2.4%	12.0%	14.4%
GENERAL ELECTRIC CO	1.640	132.375	1.3%	14.0%	15.3%
GENERAL MILLS INC	1.100	32.938	3.5%	10.0%	13.5%
GENERAL MOTORS CORP	2.000	76.062	2.7%	7.0%	9.7%
GENUINE PARTS CO	1.040	22.562	4.8%	8.0%	12.8%
GEORGIA-PACIFIC GROUP	0.500	34.688	1.5%	7.0%	8.5%
GILLETTE CO	0.590	35.250	1.8%	15.0%	16.8%
GOLDEN WEST FINANCIAL CORP	0.210	28.500	0.8%	11.5%	12.3%
GOODRICH (B F) CO	1.100	23.938	4.9%	12.0%	16.9%
GOODYEAR TIRE & RUBBER CO	1.200	22.875	5.5%	8.0%	13.5%
GPU INC	2.120	24.875	8.7%	3.5%	12.2%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

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Source Date: February 29, 2000

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GRAINGER (W W) INC	0.640	42.812	1.6%	12.3%	13.9%
GREAT ATLANTIC & PAC TEA CO	0.400	23.438	1.8%	12.0%	13.8%
GREAT LAKES CHEMICAL CORP	0.320	29.062	1.2%	11.5%	12.7%
GTE CORP	1.880	59.000	3.4%	11.7%	15.1%
GUIDANT CORP	0.025	67.375	0.0%	20.0%	20.0%
HALLIBURTON CO	0.500	38.188	1.4%	15.0%	16.4%
HARCOURT GENERAL INC	0.840	34.438	2.6%	15.0%	17.6%
HARLEY-DAVIDSON INC	0.180	68.125	0.3%	20.0%	20.3%
HARTFORD FINL SVCS GRP INC	0.960	31.250	3.2%	11.0%	14.2%
HASBRO INC	0.240	15.750	1.6%	14.5%	16.1%
HEINZ (H J) CO	1.470	31.938	4.8%	10.0%	14.8%
HERCULES INC	1.080	16.500	6.9%	10.5%	17.4%
HERSHEY FOODS CORP	1.040	43.938	2.5%	10.0%	12.5%
HEWLETT-PACKARD CO	0.640	134.500	0.5%	15.0%	15.5%
HILTON HOTELS CORP	0.080	7.000	1.2%	15.0%	16.2%
HOME DEPOT INC	0.160	57.812	0.3%	24.0%	24.3%
HOMESTAKE MINING	0.050	6.500	0.8%	18.5%	19.3%
HONEYWELL INTERNATIONAL INC	0.680	48.125	1.5%	15.0%	16.5%
HOUSEHOLD INTERNATIONAL INC	0.680	31.938	2.3%	15.0%	17.3%
HUNTINGTON BANCSHARES	0.800	20.875	4.0%	9.0%	13.0%
IKON OFFICE SOLUTIONS	0.160	7.000	2.4%	13.0%	15.4%
ILLINOIS TOOL WORKS	0.720	51.688	1.5%	13.0%	14.5%
IMS HEALTH INC	0.080	20.125	0.4%	20.0%	20.4%
INGERSOLL-RAND CO	0.680	38.312	1.9%	12.0%	13.9%
INTEL CORP	0.120	113.000	0.1%	20.0%	20.1%
INTERPUBLIC GROUP OF COS	0.340	40.188	0.9%	14.2%	15.1%
INTL BUSINESS MACHINES CORP	0.480	102.750	0.5%	13.0%	13.5%
INTL FLAVORS & FRAGRANCES	1.520	30.000	5.3%	9.0%	14.3%
INTL PAPER CO	1.000	36.812	2.8%	5.0%	7.8%
ITT INDUSTRIES INC	0.600	24.250	2.6%	13.8%	16.4%
JEFFERSON-PILOT CORP	1.320	52.062	2.7%	11.5%	14.2%
JOHNSON & JOHNSON	1.120	72.000	1.7%	13.0%	14.7%
JOHNSON CONTROLS INC	1.120	53.375	2.2%	14.0%	16.2%
JOSTENS INC	0.880	24.062	3.8%	10.0%	13.8%
KANSAS CITY SOUTHERN INDS	0.160	78.750	0.2%	15.5%	15.7%
KAUFMAN & BROAD HOME CORP	0.300	19.125	1.7%	15.0%	16.7%
KELLOGG CO	0.980	25.312	4.0%	9.0%	13.0%
KERR-MCGEE CORP	1.800	44.750	4.1%	5.0%	9.1%
KEYCORP	1.040	16.938	6.4%	10.0%	16.4%
KIMBERLY-CLARK CORP	1.040	51.500	2.1%	11.0%	13.1%
KNIGHT-RIDDER INC	0.920	46.875	2.1%	11.8%	13.9%
LEGGETT & PLATT INC	0.360	16.812	2.3%	15.0%	17.3%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

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LEHMAN BROTHERS HOLDINGS INC	0.360	72.500	0.5%	11.0%	11.5%
LILLY (ELI) & CO	0.920	59.438	1.7%	15.0%	16.7%
LIMITED INC	0.600	34.000	1.9%	13.0%	14.9%
LINCOLN NATIONAL CORP	1.100	27.625	4.2%	12.0%	16.2%
LIZ CLAIBORNE INC	0.450	37.438	1.3%	11.0%	12.3%
LOCKHEED MARTIN CORP	0.880	17.438	5.3%	10.0%	15.3%
LOEWS CORP	1.000	44.500	2.4%	13.0%	15.4%
LONGS DRUG STORES INC	0.560	18.562	3.2%	10.0%	13.2%
LOUISIANA-PACIFIC CORP	0.560	11.812	5.0%	11.1%	16.1%
LOWES COS	0.140	47.812	0.3%	21.0%	21.3%
LUCENT TECHNOLOGIES INC	0.080	59.500	0.1%	20.0%	20.1%
MALLINCKRODT INC	0.660	24.625	2.8%	11.5%	14.3%
MARRIOTT INTL INC	0.220	27.562	0.9%	16.5%	17.4%
MARSH & MCLENNAN COS	1.800	77.375	2.5%	13.0%	15.5%
MASCO CORP	0.480	17.875	2.9%	15.0%	17.9%
MATTEL INC	0.360	9.625	4.0%	15.0%	19.0%
MAY DEPARTMENT STORES CO	0.890	26.188	3.6%	11.0%	14.6%
MAYTAG CORP	0.720	26.438	2.9%	13.0%	15.9%
MBIA INC	0.820	38.375	2.3%	12.0%	14.3%
MBNA CORP	0.280	22.875	1.3%	20.0%	21.3%
MCDONALDS CORP	0.195	31.625	0.7%	12.5%	13.2%
MCGRAW-HILL COMPANIES	0.860	50.875	1.8%	12.0%	13.8%
MCKESSON HBOC INC	0.240	19.375	1.4%	18.0%	19.4%
MEAD CORP	0.680	29.938	2.4%	9.0%	11.4%
MEDTRONIC INC	0.160	48.438	0.4%	18.0%	18.4%
MELLON FINANCIAL CORP	0.800	30.125	2.8%	12.0%	14.8%
MERCK & CO	1.160	61.562	2.0%	12.0%	14.0%
MEREDITH CORP	0.300	28.625	1.1%	13.0%	14.1%
MERRILL LYNCH & CO	1.080	102.500	1.1%	12.0%	13.1%
MGIC INVESTMENT CORP/WI	0.100	37.375	0.3%	13.0%	13.3%
MILACRON INC	0.480	13.875	3.7%	12.0%	15.7%
MILLIPORE CORP	0.440	53.438	0.9%	15.0%	15.9%
MINNESOTA MINING & MFG CO	2.240	88.188	2.7%	11.0%	13.7%
MOLEX INC	0.100	55.875	0.2%	16.0%	16.2%
MONSANTO CO	0.120	38.812	0.3%	20.0%	20.3%
MORGAN (J P) & CO	4.000	111.188	3.8%	9.5%	13.3%
MORGAN STANLEY DEAN WITTER	0.480	70.438	0.7%	14.0%	14.7%
MOTOROLA INC	0.480	170.375	0.3%	20.0%	20.3%
NABISCO GROUP HLDGS CORP	0.490	8.625	6.0%	9.5%	15.5%
NATIONAL CITY CORP	1.080	19.250	5.9%	10.0%	15.9%
NATIONAL SERVICE INDS INC	1.280	20.625	6.5%	10.0%	16.5%
NEW CENTURY ENERGIES INC	2.320	27.062	8.8%	5.0%	13.8%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

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NEW YORK TIMES CO -CL A	0.420	42.250	1.1%	13.0%	14.1%
NEWELL RUBBERMAID INC	0.800	23.250	3.7%	15.0%	18.7%
NEWMONT MINING CORP	0.120	22.125	0.6%	20.0%	20.6%
NICOR INC	1.560	30.375	5.3%	6.0%	11.3%
NIKE INC -CL B	0.480	28.438	1.8%	15.0%	16.8%
NORDSTROM INC	0.320	21.312	1.6%	15.0%	16.6%
NORFOLK SOUTHERN CORP	0.800	13.562	6.2%	10.5%	16.7%
NORTEL NETWORKS CORP	0.150	115.781	0.1%	20.0%	20.1%
NORTHERN STATES POWER/MN	1.450	17.562	8.5%	6.0%	14.5%
NORTHERN TRUST CORP	0.540	56.500	1.0%	12.0%	13.0%
NORTHROP GRUMMAN CORP	1.600	45.438	3.7%	9.0%	12.7%
NUCOR CORP	0.520	49.688	1.1%	15.0%	16.1%
OCCIDENTAL PETROLEUM CORP	1.000	16.062	6.6%	12.0%	18.6%
OLD KENT FINANCIAL CORP	0.880	26.188	3.5%	11.0%	14.5%
OMNICOM GROUP	0.700	94.188	0.8%	15.8%	16.6%
OWENS CORNING	0.300	14.500	2.2%	10.0%	12.2%
PACCAR INC	0.800	43.062	1.9%	9.5%	11.4%
PAINE WEBBER GROUP	0.440	38.250	1.2%	10.5%	11.7%
PALL CORP	0.640	19.750	3.5%	14.5%	18.0%
PARKER-HANNIFIN CORP	0.680	36.250	2.0%	12.0%	14.0%
PAYCHEX INC	0.360	50.062	0.8%	27.0%	27.8%
PE CORP BIOSYSTEMS	0.170	105.000	0.2%	23.5%	23.7%
PECO ENERGY CO	1.000	37.312	2.8%	8.0%	10.8%
PENNEY (J C) CO	1.150	15.750	7.7%	10.0%	17.7%
PEOPLES ENERGY CORP	1.960	28.938	6.9%	4.5%	11.4%
PEP BOYS-MANNY MOE & JACK	0.270	6.188	4.7%	15.0%	19.7%
PEPSICO INC	0.540	32.125	1.8%	13.0%	14.8%
PERKINELMER INC	0.560	64.625	0.9%	15.0%	15.9%
PFIZER INC	0.320	32.125	1.1%	19.0%	20.1%
PG&E CORP	1.200	20.625	6.0%	7.0%	13.0%
PHARMACIA & UPJOHN INC	1.080	47.625	2.4%	13.0%	15.4%
PHELPS DODGE CORP	2.000	47.125	4.4%	6.5%	10.9%
PHILIP MORRIS COS INC	1.920	20.188	10.1%	12.0%	22.1%
PHILLIPS PETROLEUM CO	1.360	38.125	3.7%	9.0%	12.7%
PINNACLE WEST CAPITAL	1.400	27.625	5.2%	6.0%	11.2%
PITNEY BOWES INC	1.020	49.500	2.2%	14.0%	16.2%
PLACER DOME INC	0.100	8.750	1.2%	10.0%	11.2%
PNC BANK CORP	1.800	38.688	4.9%	10.0%	14.9%
POLAROID CORP	0.600	25.062	2.5%	10.0%	12.5%
POTLATCH CORP	1.740	38.000	4.7%	7.0%	11.7%
PPG INDUSTRIES INC	1.520	49.375	3.2%	9.5%	12.7%
PPL CORP	1.000	20.125	5.1%	3.5%	8.6%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

Source: S&P Compustat Data Base

Source Date: February 29, 2000

<u>S&P Company Name</u>	<u>Current Dividend</u> A	<u>Current Price</u> B	<u>Expected Dividend Yield</u> C = (calc)	<u>Expected IBES LT Growth</u> D	<u>Market Required Return (Div Yld+Growth)</u> E = C + D
PRAXAIR INC	0.560	33.750	1.8%	12.0%	13.8%
PRICE (T. ROWE) ASSOCIATES	0.400	32.938	1.3%	15.0%	16.3%
PROCTER & GAMBLE CO	1.210	87.875	1.5%	13.0%	14.5%
PROGRESSIVE CORP-OHIO	0.260	59.500	0.5%	15.0%	15.5%
PROVIDIAN FINANCIAL CORP	0.200	64.688	0.3%	25.0%	25.3%
PUBLIC SERVICE ENTRP	2.160	29.000	7.6%	5.0%	12.6%
PULTE CORP	0.160	16.812	1.0%	10.0%	11.0%
QUAKER OATS CO	1.140	53.938	2.2%	10.0%	12.2%
RALSTON PURINA CO	0.400	28.312	1.5%	11.0%	12.5%
RAYTHEON CO -CL B	0.800	18.500	4.5%	10.0%	14.5%
REGIONS FINL CORP	1.000	20.250	5.2%	10.0%	15.2%
RELIANT ENERGY INC	1.500	20.562	7.6%	8.0%	15.6%
REYNOLDS METALS CO	1.400	63.500	2.3%	9.0%	11.3%
RITE AID CORP	0.460	6.875	7.1%	13.0%	20.1%
ROCKWELL INTL CORP	1.020	45.250	2.4%	12.0%	14.4%
ROHM & HAAS CO	0.760	40.250	2.0%	10.0%	12.0%
ROYAL DUTCH PET -NY REG	2.296	52.750	4.6%	10.0%	14.6%
RUSSELL CORP	0.560	13.812	4.3%	12.0%	16.3%
RYDER SYSTEM INC	0.600	18.500	3.4%	12.0%	15.4%
SAFECO CORP	1.480	21.000	7.4%	10.0%	17.4%
SARA LEE CORP	0.540	14.875	3.8%	11.0%	14.8%
SBC COMMUNICATIONS INC	0.975	38.062	2.7%	12.5%	15.2%
SCHERING-PLOUGH	0.500	35.000	1.5%	16.0%	17.5%
SCHLUMBERGER LTD	0.750	73.859	1.1%	20.0%	21.1%
SCHWAB (CHARLES) CORP	0.056	41.875	0.2%	25.0%	25.2%
SCIENTIFIC-ATLANTA INC	0.060	102.688	0.1%	21.0%	21.1%
SEAGRAM CO LTD	0.449	58.750	0.8%	15.0%	15.8%
SEARS ROEBUCK & CO	0.920	27.562	3.5%	10.0%	13.5%
SEMPRA ENERGY	1.560	18.000	8.9%	5.0%	13.9%
SERVICE CORP INTERNATIONAL	0.360	3.688	10.3%	11.0%	21.3%
SHARED MEDICAL SYSTEMS CORP	0.840	38.938	2.4%	20.0%	22.4%
SHERWIN-WILLIAMS CO	0.480	19.125	2.7%	12.0%	14.7%
SIGMA-ALDRICH	0.310	23.750	1.4%	12.0%	13.4%
SLM HLDG CORP	0.640	31.312	2.2%	13.0%	15.2%
SNAP-ON INC	0.920	21.812	4.4%	11.0%	15.4%
SOUTHERN CO	1.340	22.188	6.2%	6.0%	12.2%
SOUTHTRUST CORP	0.880	22.938	4.0%	11.0%	15.0%
SOUTHWEST AIRLINES	0.022	18.438	0.1%	13.5%	13.6%
SPRINGS INDUSTRIES -CL A	1.320	35.438	3.9%	9.0%	12.9%
SPRINT FON GROUP	0.500	61.000	0.9%	12.0%	12.9%
ST PAUL COS	1.040	22.375	4.9%	10.0%	14.9%
STANLEY WORKS	0.880	23.000	4.0%	11.0%	15.0%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

Source: S&P Compustat Data Base
Source Date: February 29, 2000

<u>S&P Company Name</u>	<u>Current Dividend</u> A	<u>Current Price</u> B	<u>Expected Dividend Yield</u> C = (calc)	<u>Expected IBES LT Growth</u> D	<u>Market Required Return</u> (Div Yld+Growth) E = C + D
STATE STREET CORP	0.640	72.875	0.9%	14.4%	15.3%
SUMMIT BANCORP	1.320	23.938	5.8%	9.0%	14.8%
SUNOCO INC	1.000	24.688	4.2%	7.5%	11.7%
SUNTRUST BANKS INC	1.380	50.812	2.9%	12.0%	14.9%
SUPERVALU INC	0.540	17.188	3.3%	12.0%	15.3%
SYNOVUS FINANCIAL CP	0.360	16.375	2.4%	14.3%	16.7%
SYSCO CORP	0.400	32.812	1.3%	13.0%	14.3%
TANDY CORP	0.220	38.000	0.6%	18.0%	18.6%
TARGET CORP	0.400	59.000	0.7%	15.0%	15.7%
TEKTRONIX INC	0.480	58.000	0.9%	13.5%	14.4%
TEMPLE-INLAND INC	1.280	51.125	2.6%	7.0%	9.6%
TEXACO INC	1.800	47.438	3.9%	8.0%	11.9%
TEXAS INSTRUMENTS INC	0.170	166.125	0.1%	22.0%	22.1%
TEXAS UTILITIES CO	2.400	32.625	7.6%	6.0%	13.6%
TEXTRON INC	1.300	61.000	2.3%	13.5%	15.8%
THOMAS & BETTS CORP	1.120	22.438	5.3%	13.0%	18.3%
TIME WARNER INC	0.180	85.250	0.2%	12.0%	12.2%
TIMES MIRROR COMPANY -SER A	0.800	51.000	1.7%	11.0%	12.7%
TIMKEN CO	0.720	14.312	5.3%	10.0%	15.3%
TJX COMPANIES INC	0.140	15.938	1.0%	16.5%	17.5%
TORCHMARK CORP	0.360	19.812	1.9%	10.5%	12.4%
TOSCO CORP	0.280	26.750	1.1%	11.0%	12.1%
TRANSOCEAN SEDCO FOREX INC	0.120	39.438	0.3%	16.5%	16.8%
TRIBUNE CO	0.360	38.938	1.0%	13.0%	14.0%
TRW INC	1.320	48.000	2.9%	10.0%	12.9%
TUPPERWARE CORP	0.880	17.188	5.4%	11.0%	16.4%
TYCO INTERNATIONAL LTD	0.050	37.875	0.1%	20.0%	20.1%
U S BANCORP/DE	0.780	18.312	4.5%	12.0%	16.5%
U S WEST INC	2.140	72.625	3.0%	7.0%	10.0%
UNICOM CORP	1.600	37.812	4.4%	7.0%	11.4%
UNILEVER N V -NY SHARES	1.180	45.500	2.7%	10.8%	13.5%
UNION CARBIDE CORP	0.900	53.688	1.8%	10.0%	11.8%
UNION PACIFIC CORP	0.800	38.000	2.2%	10.0%	12.2%
UNION PACIFIC RESOURCES GRP	0.200	8.938	2.4%	10.8%	13.2%
UNION PLANTERS CORP	2.000	27.375	7.6%	7.5%	15.1%
UNITED HEALTHCARE CORP	0.030	51.125	0.1%	15.0%	15.1%
UNITED TECHNOLOGIES CORP	0.800	50.938	1.7%	15.0%	16.7%
UNOCAL CORP	0.800	26.750	3.1%	8.0%	11.1%
UNUMPROVIDENT CORP	0.590	13.375	4.7%	13.0%	17.7%
UST INC	1.680	19.312	9.1%	9.0%	18.1%
USX-MARATHON GROUP	0.840	21.625	4.1%	13.0%	17.1%
USX-U S STEEL GROUP	1.000	21.875	4.8%	8.0%	12.8%

Discounted Cash Flow Analysis Standard & Poor's 500 Companies

Source: S&P Compustat Data Base
Source Date: February 29, 2000

<u>S&P Company Name</u>	<u>Current Dividend</u> A	<u>Current Price</u> B	<u>Expected Dividend Yield</u> C = (calc)	<u>Expected IBES LT Growth</u> D	<u>Market Required Return</u> (Div Yld + Growth) E = C + D
VF CORP	0.880	24.688	3.7%	10.0%	13.7%
VULCAN MATERIALS CO	0.780	40.000	2.1%	12.0%	14.1%
WACHOVIA CORP	2.160	57.188	4.0%	11.0%	15.0%
WAL-MART STORES	0.200	48.875	0.4%	15.0%	15.4%
WALGREEN CO	0.135	25.812	0.6%	16.0%	16.6%
WARNER-LAMBERT CO	0.800	85.562	1.0%	18.0%	19.0%
WASHINGTON MUTUAL INC	1.040	22.125	5.0%	13.0%	18.0%
WASTE MANAGEMENT INC	0.040	15.000	0.3%	12.0%	12.3%
WELLS FARGO & CO	0.800	33.062	2.6%	13.0%	15.6%
WENDY'S INTERNATIONAL INC	0.240	15.750	1.6%	15.0%	16.6%
WESTVACO CORP	0.880	27.289	3.3%	7.0%	10.3%
WEYERHAEUSER CO	1.600	51.312	3.2%	8.0%	11.2%
WHIRLPOOL CORP	1.360	54.312	2.6%	10.0%	12.6%
WILLAMETTE INDUSTRIES	0.720	33.875	2.2%	10.0%	12.2%
WILLIAMS COS INC	0.600	41.812	1.5%	15.0%	16.5%
WINN-DIXIE STORES INC	1.020	16.125	6.6%	10.0%	16.6%
WORTHINGTON INDUSTRIES	0.600	13.250	4.9%	14.5%	19.4%
WRIGLEY (WM) JR CO	1.400	67.625	2.2%	11.0%	13.2%
XEROX CORP	0.800	21.750	3.9%	13.0%	16.9%
YOUNG & RUBICAM INC	0.100	50.500	0.2%	20.0%	20.2%
WEIGHTED AVERAGE REQUIRED RETURN			1.7%	14.1%	15.8%

Notes:

1. 102 companies were deleted from the sample. 96 do not pay dividends and 6 lack IBES long term growth rates.
2. Expected dividend yield is estimated using annual dividend increased by one half the IBES growth rate (dividend yield = annual dividend x (1 + .5 x growth rate) / price).
3. The S&P 500 is a market weighted index and the market required returns for individual companies are weighted by market value.

**Standard & Poor's 500 Companies
Capital Asset Pricing Model Analysis
(Expected Return on the Market Model)**

The Expected Return on the Market (R_m) is equal to the risk free rate of interest (R_f) plus Beta times the Market Risk Premium (MRP). $R_m = R_f + (\text{Beta} \times \text{MRP})$

		Refer to Note -----
<u>Risk Free Rate</u>		
Intermediate Term (3, 5, and 10 Yr Treasury Note Yields)	6.57%	(1)
Long Term (30 Year Treasury Bond Yields)	6.18%	(1)

Market Risk Premium

Intermediate Term - Avg of Ex Post and Ex Ante	8.9%	
Ex Post (Ibbotson Data)	8.5%	(2)
Ex Ante (S&P 500 DCF - Risk Free Rate)	9.2%	(3)
Long Term - Avg of Ex Post and Ex Ante	8.9%	
Ex Post (Ibbotson Data)	8.1%	(2)
Ex Ante (S&P 500 DCF - Risk Free Rate)	9.6%	(4)

Beta

By definition, the Beta of the market portfolio is 1.0

CAPM Expected Return on the Market

Intermediate Term	6.57%	+	1.0	(8.9%) =	15.5%
Long Term	6.18%	+	1.0	(8.9%) =	15.1%
Average					15.3%

Notes:

1. Federal Reserve Statistical Release (H15 Reports) For the Period 2/15/00 thru 2/29/00
2. Market Results 1926-1999 from Ibbotson Associates
(Stocks, Bonds, Bills & Inflation 2000 Yearbook)
3. 15.80% (Exhibit PCC-07) - 6.57% = 9.2%
4. 15.80% (Exhibit PCC-07) - 6.18% = 9.6%

Equity Risk Premium Test

Ex-Post Equity Risk Premium

Notes
(1)

1.	Common Stock Total Returns	13.3%
2.	Corporate Bonds Total Returns	5.9%
3.	Ex-Post Equity Risk Premium (Line 1 - Line 2)	7.4%

Ex-Ante Equity Risk Premium

4.	DCF Estimate for the S&P 500 Index	(2)	15.8%
5.	Cost of Single A LT Debt	(3)	8.3%
6.	Ex-Ante Equity Risk Premium (Line 4 - Line 5)		7.5%

Cost of Single A LT Debt

(3) 8.3%

Adjustment to Equity Risk Premiums for Risk/Beta

7.	Beta Range from CAPM Estimate		(4)	0.78	to	0.80
8.	Ex-Post Equity Risk Premium	ERP	x	Beta	=	Adj-ERP
9.	(Risk-adjusted)	7.4%	x	0.78	=	5.8%
10.		7.4%	x	0.80	=	5.9%
11.	Ex-Ante Equity Risk Premium	ERP	x	Beta	=	Adj-ERP
12.	(Risk-adjusted)	7.5%	x	0.78	=	5.9%
13.		7.5%	x	0.80	=	6.0%

Calculation of the Return Range for the Equity Risk Premium Test

	Equity Risk Premium Range	=	Cost of Single A LT Debt	+	Adjusted Risk Premium	
14.			8.3%	+	5.8%	= 14.1%
15.			8.3%	+	6.0%	= 14.3%

Notes:

1. Market Results 1926-1999 from Ibbotson Associates (Stocks, Bonds, Bills & Inflation 2000 Yearbook)
2. Ex-Ante DCF Estimate from Exhibit PCC-7
3. Average Seasoned Single A Public Utility Bond Yield from Moody's February 2000
4. Beta Range from CAPM (Exhibits PCC-5, PCC-6)

Telephone Cos Avg	=	0.80
Comparables Avg	=	0.78

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE EARNINGS)
OF THE COMPANY, THE FAIR VALUE OF THE)
COMPANY FOR RATEMAKING PURPOSES,)
TO FIX A JUST AND REASONABLE RATE OF)
RETURN THEREON, AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN.)

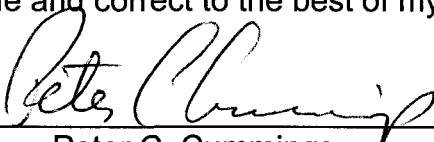
DOCKET NO. T-1051B-99-105

STATE OF WASHINGTON)

COUNTY OF KING) : ss AFFIDAVIT OF PETER C. CUMMINGS

Peter C. Cummings, of lawful age being first duly sworn, depose and states:

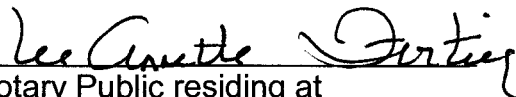
1. My name is Peter C. Cummings. I am Director – Finance & Economic Analysis of U S WEST Communications in Seattle, Washington.
2. Attached hereto and made a part hereof for all purposes is my testimony consisting of pages 1 through 6, and my exhibits numbered PCC-1 Through PCC-9.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


Peter C. Cummings

SUBSCRIBED AND SWORN to before me this 27th day of

April, 2000.




Notary Public residing at
Seattle, Washington.

My Commission Expires:

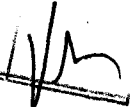
9/15/01

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

MAY 03 2000

DOCKETED BY



IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE EARNINGS)
OF THE COMPANY, THE FAIR VALUE OF THE)
COMPANY FOR RATEMAKING PURPOSES,)
TO FIX A JUST AND REASONABLE RATE OF)
RETURN THEREON, AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN.)

DOCKET NO. T-1051B-99-105

SUPPLEMENTAL DIRECT TESTIMONY

OF

ANN KOEHLER-CHRISTENSEN

U S WEST COMMUNICATIONS

May 3, 2000

**TESTIMONY OF ANN KOEHLER-CHRISTENSEN
INDEX OF TESTIMONY**

I. TESTIMONY

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II. EXHIBITS

	Exhibit
Witness Qualification Statement.....	AKC-1
1985 PHOENIX METRO DIRECTORY COVER.....	AKC-2
1997 PRESCOTT DIRECTORY COVER	AKC-3
1998 EAST VALLEY DIRECTORY COVER.....	AKC-4

EXECUTIVE SUMMARY

1. Current Responsibilities:

My name is Ann Koehler-Christensen. I am employed by U S WEST Communications as a manager in the Regulatory Finance organization. My business address is 1600 7th Avenue, Room 3008, Seattle, Washington 98191.

I am responsible for the contractual relationships between U S WEST Communications and U S WEST Dex. This involves all issues including Yellow Pages imputation.

2. Purpose of Testimony:

The purpose of my testimony is to demonstrate the value of the services provided to U S WEST Communications by U S WEST Dex and the current amount of fees booked to Account 5230, Directory Revenue in this test period. DEX continues to provide directory services to U S WEST at no cost to U S WEST or to U S WEST customers. In fact, the value of the services DEX provided to U S WEST in this test period exceeded the value provided in the 1984 test year referenced in the Settlement Agreement. I will also explain the reason fees paid by DEX have been reduced. In large measure, the fees have been reduced because U S WEST provides commensurately less to DEX than it has in the past. I demonstrate that the current

booked fees and the value of services U S WEST receives from DEX are already reflected in the financial filings included in this rate case. Consequently, there is no need for any further adjustment to U S WEST's revenue requirement to reflect additional directory imputation.

3. Summary of Testimony:

DEX incurs all the costs of publishing and delivering directories to U S WEST customers. At the time of the Settlement Agreement DEX incurred these costs and DEX continues to incur these costs. The cost to DEX to publish and deliver directories has increased over the years from approximately \$3.3 million to \$13 million. However, the cost to U S WEST and to U S WEST customers was low in 1984 and is zero today.

The fees have decreased because the services provided under the Publishing Agreement are fewer and have less value today than previously. Both court decisions and federal legislation have contributed to the availability of listings and the ability of any publisher to publish directories in any market. This is a change in the publishing environment has drastically lowered the market value of publishing rights. U S WEST charges DEX market price for its listings and the Publishing Agreement between U S WEST and DEX reflects market conditions and values, since DEX has the same agreements with competitive Local Exchange Carriers as well as with independent Local Exchange Carriers.

U S WEST is receiving fees at a fair market rate for the full value of the services U S WEST provides to DEX. DEX continues to provide both White and Yellow Pages directories ("the services") at no cost to U S WEST or to U S WEST customers.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Ann Koehler-Christensen. I am employed by U S WEST Communications as a manager in the Regulatory Finance organization. My business address is 1600 7th Avenue, Room 3008, Seattle, Washington 98191.

Q. WHY ARE YOU FILING SUPPLEMENTAL TESTIMONY?

A. I am filing supplemental testimony in order to update the test year information included in my January 8, 1999 testimony. Since this information is scattered throughout my testimony, I am replacing my original testimony entirely with this supplemental testimony.

Q. BRIEFLY OUTLINE YOUR EMPLOYMENT BACKGROUND.

A. My employment and educational background are shown on the Witness Qualification Statement, Exhibit AKC-1.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to demonstrate the value of the services provided to U S WEST Communications ("U S WEST") by U S WEST Dex ("DEX") and the current amount of fees booked to Account 5230, Directory Revenue in this test period. DEX continues to provide directory services to U S WEST at no cost to U S WEST or to U S WEST customers. In fact, the value of the services DEX provided to U S WEST in this test period exceeded the value provided in the 1984 test year referenced in the Settlement Agreement. I will also explain the reason fees paid by DEX have been reduced. In large measure, the fees have been reduced because U S WEST provides commensurately less to DEX than it has in the past. I demonstrate that the current booked fees and the value of services U S WEST receives from DEX are already reflected in the financial filings included in this rate case. Consequently, there is no need for any further adjustment to U S WEST's revenue requirement to reflect additional directory imputation.

SERVICES

Q. WHAT SERVICES DID DEX PROVIDE UNDER THE TERMS OF THE PUBLISHING AGREEMENT IN 1984?

A. Under the terms of the Publishing Agreement in effect in 1984, DEX was obligated to publish and deliver White Pages directories to U S WEST customers at no charge to U S WEST or it's customers.

Q. ARE THESE THE SAME SERVICES PROVIDED IN THE CURRENT PUBLISHING AGREEMENT?

A. Yes. However, the current agreement also obligates DEX to deliver Yellow Pages directories at no charge to U S WEST or it's customers and also to offer complimentary Yellow Pages listings to each of U S WEST's business customers.

Q. WHAT IS THE APPROXIMATE VALUE OF THE SERVICES PROVIDED BY DEX TO U S WEST?

1 A. The cost of publishing the White Pages and of delivering the White and Yellow
2 Pages to U S WEST customers between in 1999 was approximately \$12.8
3 million.

4
5 **Q. WHO INCURRED THESE COSTS DURING THE TEST YEAR?**

6
7 A. All the costs were incurred by DEX and were not passed on to U S WEST.
8

9 **Q. HOW IS THE BENEFIT REFLECTED IN U S WEST'S FINANCIAL**
10 **STATEMENTS?**

11
12 A. If DEX had not published and distributed Arizona directories to U S WEST's
13 customers under the terms of the Publishing Agreement, U S WEST would have
14 had to incur these costs. U S WEST would have incurred an additional \$12.8
15 million in order to meet this obligation. This means that not only would
16 U S WEST's expenses have been \$12.8 million higher, the revenue requirement
17 would have been approximately \$12.8 million higher as well.

18
19 **Q. HOW DID YOU DETERMINE DEX'S COST OF PUBLISHING AND**
20 **DELIVERING ARIZONA DIRECTORIES?**

21

1 A. First, I obtained manufacturing (paper and printing) and distribution (delivery)
2 expense for each Arizona directory from DEX for the 1999 test period.

3
4 **Q. WERE DEX'S TOTAL MANUFACTURING AND DISTRIBUTION COSTS \$12.8**
5 **MILLION FOR THE TEST PERIOD?**

6
7 A. No, DEX's Arizona manufacturing and distribution costs for the test period were
8 \$40,267,486. To arrive at the \$12.8 million, I went through several steps. First I
9 excluded nine Arizona directories published by DEX that are not published on
10 behalf of USWC and are not covered by the publishing agreement. Of DEX's
11 remaining Arizona directories published in the test period, two were separately
12 bound White Pages books and three were separately bound Yellow Pages
13 books, and twelve were co-bound White and Yellow Pages directories. I
14 obtained a count of the number of white pages and the number of yellow pages
15 in each of these directories and I allocated the manufacturing expenses for each
16 based on the proportion of white and yellow pages to arrive at White Pages
17 manufacturing expense.

18
19 **Q. DID YOU PERFORM ANY OTHER ALLOCATIONS?**

20
21 A. Yes, because DEX directories include listings of customers of competitive and
22 independent Local Exchange Carriers as well as of U S WEST customers, I

1 further allocated the manufacturing costs as well as the distribution costs. I
2 obtained the number of U S WEST listings and the number of non-U S WEST
3 listings included in each of DEX's Arizona directories. I allocated the White
4 Pages manufacturing costs to U S WEST based on the percentage of
5 U S WEST customers published in each directory. I allocated the distribution
6 costs in the same way. After performing these two allocations, I arrived at \$12.6
7 million for White Pages manufacturing and White and Yellow Pages distribution
8 costs for U S WEST customers.

9
10 **Q. WHAT OTHER COSTS DID YOU INCLUDE?**

11
12 **A.** Manufacturing expense includes only printing and paper costs. DEX has a work
13 group responsible for preparing the White Pages for printing. DEX's costs for
14 this work group were **\$970,000**. Arizona's portion of this is approximately
15 **\$200,000**.

16
17 **Q. HOW DOES THE VALUE OF THE SERVICES PROVIDED BY DEX TO**
18 **U S WEST IN THIS TEST YEAR COMPARE TO THE VALUE OF THE**
19 **SERVICES PROVIDED IN 1984?**

20
21 **A.** I estimate the 1984 value at approximately \$2.4 million. The level of detail is no
22 longer available to allow me to restate the 1984 expenses as I have done for the

1 test year. I've estimated the 1984 expenses by taking the same percentage of
2 1984 manufacturing and distribution expense as the \$12.6 million is of the test
3 year manufacturing and distribution expense. In 1984, as now, the cost to
4 U S WEST was zero for manufacturing and distribution, although U S WEST did
5 incur the costs to prepare camera-ready White Pages for printing. All the costs
6 are now incurred by DEX and these costs have increased over fourfold. In this
7 way, both U S WEST and U S WEST's customers receive the full value of high
8 quality DEX directories without incurring any expense or risk. Under the terms of
9 the Publishing Agreement, DEX continues to provide U S WEST customers with
10 directories and DEX incurs all the risk of increased costs.

11
12 **FEES**

13
14 **Q. THE DIRECTORY SETTLEMENT AGREEMENT USED THE 1984 RATE CASE**
15 **DIRECTORY AMOUNT AS ITS BASIS. PLEASE EXPLAIN THE SOURCES OF**
16 **THE \$43 MILLION IN THAT CASE.**

17
18 **A.** The \$43 million in the 1984 test year consisted of \$49.2 million of booked
19 directory revenue ¹ less \$11.1 million of booked directory expense ² plus a \$4.9
20 million pro forma adjustment. The sum of these three equals \$43 million.

¹ Booked to Account 523, Directory Revenue. The equivalent account is now Account 5230.

² Booked to Account 630, Directory Expense. There is no equivalent account today.

1

2 **Q. PLEASE DESCRIBE THE VARIOUS SOURCES OF THESE REVENUES.**

3

4 **A.** The \$49.2 million of directory revenues on U S WEST's 1984 Arizona books
5 included revenues from several sources. These were:

- 6 • \$28.3 million of the revenues from Publishing Fees paid by DEX
- 7 • \$16 million of Yellow Pages advertising revenues sold to advertisers in
- 8 1983, but paid to U S WEST in 1984
- 9 • \$4.9 million in revenues that were received from U S WEST customers
- 10 for non-standard listings as well as from U S WEST listings sold to
- 11 other publishers.

12

13 The \$11.1 million in directory expenses on the books related to the 1983
14 directories for which U S WEST booked \$16 million in revenues. In other words,
15 there was a net revenue impact of \$5 million that occurred in the transition year
16 of 1984 that did not continue past that year. Finally, there was a pro forma
17 adjustment made to reflect the increase in the Publishing Fees for 1985 that had
18 already been negotiated.

19

20 **Q. HOW DO THESE AMOUNTS COMPARE TO REVENUES RECEIVED IN THE**
21 **TEST YEAR USED IN THIS CASE?**

22

23 **A.** The total Account 5230, Directory Revenue, included in this test year is
24 \$18,652,343. There are no Yellow Pages revenues or expenses on U S WEST's
25 books. 1984 was the last year that Yellow Pages advertising and Yellow Pages
26 expense appeared on U S WEST's books. After the 1984 transition year, all

1 Yellow Pages revenues and expenses, along with any risk, were incurred by
2 DEX rather than by U S WEST. Regulated revenues paid by DEX have gone
3 from \$28.3 million in 1984 to \$855,753 in the current test period. The revenues
4 on U S WEST's books from non-standard listings and from listings sold to other
5 directory publishers have grown from \$4.9 million in 1984 to nearly \$18 million in
6 the current test year.

7
8 **Q. WILL YOU PLEASE EXPLAIN THE REVENUES U S WEST RECEIVES FROM**
9 **NON-STANDARD LISTINGS AND FROM OTHER DIRECTORY PUBLISHERS?**

10
11 **A.** U S WEST sells non-standard White Pages listings to customers. These include
12 listings such as additional listings, e-mail address listings, and privacy listings.
13 U S WEST receives the revenue for these listings and DEX incurs the expense
14 of publishing the extra listings and any special handling required of privacy
15 listings, for example. U S WEST also makes its subscriber listings available to
16 all other publishers in addition to DEX. The revenues from the licensing of
17 U S WEST's subscriber listings are included in these directory revenues and the
18 benefit derived from this revenue is already reflected on U S WEST's books.

19
20 **Q. WHAT DID U S WEST PROVIDE TO DEX IN RETURN FOR THE \$28.2**
21 **MILLION IN PUBLISHING FEES IN 1984?**

22

1 A. In 1984, the following services were provided by U S WEST to DEX under the
2 Publishing Agreement:

- 3 • Negotiation of Yellow Pages heading information for DEX
- 4 • Access to U S WEST's Listings database
- 5 • Advanced List Service orders taken and provided to DEX to meet DEX
- 6 directory closes
- 7 • Negotiation of directory delivery quantities
- 8 • Maintenance and provision of delivery routing information
- 9 • White Pages composition services and delivery of camera-ready White
- 10 Pages to DEX
- 11 • Community Service Pages composition services and delivery of
- 12 camera-ready pages to DEX
- 13 • Government Pages composition services and delivery of camera-ready
- 14 pages to DEX
- 15 • Generic Phone Service Pages composition services and delivery of
- 16 camera-ready pages to DEX
- 17 • Premium Phone Service Pages composition services and delivery of
- 18 camera-ready pages to DEX
- 19 • Foreign Directory ordering services
- 20 • Use of Mountain Bell's name on Dex's directory covers (now
- 21 U S WEST)
- 22 • Placement of DEX directories in U S WEST's Public Pay Stations
- 23 • Subscriber Lists
- 24 • U S WEST granted DEX the right to publish directories for U S WEST
- 25

26 Q. DOES U S WEST CONTINUE TO PROVIDE ALL THESE SERVICES TO DEX?

27
28 A. No, U S WEST only provides the last three items on the preceding list for DEX.

- 29 • Placement of DEX directories in U S WEST's Public Pay Stations
- 30 • Subscriber Lists
- 31 • U S WEST granted DEX the right to publish directories for U S WEST
- 32

33 Q. PLEASE EXPLAIN THE CURRENT PUBLIC PAY STATIONS ARRANGEMENT.

34

1 A. Public Pay Stations were deregulated in 1997. As a result, all revenues and
2 expenses associated with Public Pay Stations have been removed from
3 regulated tariffs. This removal of Public Pay Station is not related to the directory
4 publishing agreements between U S WEST and DEX, but is simply another
5 change that was necessary as a result of legal, regulatory and competitive
6 changes in this industry.

7
8 **Q. WHAT IS THE VALUE OF THE SUBSCRIBER LISTS U S WEST PROVIDES**
9 **TO DEX?**

10
11 A. DEX pays U S WEST market value for the subscriber lists. The test year
12 revenues from DEX for Arizona subscriber lists are **\$855,750**.

13
14 **Q. HOW HAS A MARKET VALUE BEEN ESTABLISHED?**

15
16 **A.** U S WEST has the same listings agreements with DEX as it has with
17 approximately fifty publishers throughout its fourteen-state territory. U S WEST
18 licenses Arizona listings to four independent publishers as well as to DEX.
19 U S WEST charges all publishers the same licensing fees and provides the lists
20 on the same terms and conditions.

21

1 **Q. DOES DEX CONTINUE TO PAY U S WEST PUBLISHING FEES FOR THE**
2 **RIGHT TO PUBLISH DIRECTORIES FOR U S WEST?**

3
4 **A. No, DEX compensates U S WEST by providing high quality White and Yellow**
5 **Pages directories to U S WEST customers at no cost. DEX does not pay any**
6 **additional fees to U S WEST for the right to publish directories that include**
7 **U S WEST subscriber listings.**

8
9 **Q. PLEASE EXPLAIN WHY DEX NO LONGER PAYS U S WEST.**

10
11 **A. U S WEST can not grant exclusive publishing rights to any publisher because all**
12 **publishers have the right to obtain and publish the listings of any local exchange**
13 **carrier ("LEC"). In 1984, U S WEST was under no obligation to make its**
14 **subscriber lists available to other publishers. In 1991, however, the Feist**
15 **Decision³ established that neither White nor Yellow Pages listings, nor Yellow**
16 **Pages Headings could be copyrighted. This decision effected the publishing**
17 **business in two ways. First, it meant that any publisher could obtain listings in**
18 **order to publish directories, if not directly from the LEC, then by copying the**
19 **listings from directories published by another publisher. This also had the effect**
20 **of lowering the value of listings licensed from LECs. The Federal Telecom Act of**
21 **1996 now requires LECs to make their listings available to all publishers desiring**

³ Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991)

1 access to the listings. These decisions have led to lower prices associated with
2 the sale or licensing of subscriber listings and the right to publish directories.

3
4 **Q. IS THERE ANY EVIDENCE OF A MARKET PRICE FOR THE RIGHT TO**
5 **PUBLISH DIRECTORIES?**

6
7 **A.** Yes, the market price is zero. DEX currently has publishing agreements with
8 thirteen competitive LECs and approximately one hundred independent LECs.
9 Seven of these thirteen competitive LECs are certified to provide service in
10 Arizona and eight of the independent LECs are Arizona LECs. These publishing
11 agreements are virtually the same as the publishing agreement between DEX
12 and U S WEST. In other words, DEX does not pay publishing fees.

13
14 **Q. DO OTHER PUBLISHERS PAY U S WEST FOR THE RIGHT TO PUBLISH**
15 **U S WEST'S SUBSCRIBER LISTINGS?**

16
17 **A.** No, U S WEST licenses its subscriber listings to fifty independent publishers.
18 These publishers pay U S WEST the same licensing fees as DEX pays
19 U S WEST for the subscriber lists, but they do not pay U S WEST publishing
20 fees. Four independent publishers license Arizona listings, although at least
21 eight publishers include U S WEST subscriber listings in directories they publish

1 in Arizona. Basically, DEX does not pay publishing fees to publish their
2 directories and other publishers do not pay publishing fees to U S WEST.

3
4 **Q. DOES DEX PLACE U S WEST'S NAME ON THE FRONT OF ITS DIRECTORY**
5 **COVERS?**

6
7 A. Although DEX is under no obligation to place U S WEST's name on their
8 directory covers, DEX has a relatively new policy to include on their covers the
9 names of up to five LECs⁴ with listings in the directory. U S WEST is one of the
10 top five LECs for a majority of DEX directories.

11
12 **Q. WHY DID DEX INSTITUTE THIS NEW POLICY?**

13
14 A. Since mid-1988 DEX's policy has been to place only their own name on the
15 covers of their directories. With the advent of local exchange competition,
16 several competitive LECs attempted to have DEX include their names on the
17 directory covers. When DEX declined, these LECs turned to regulators. The
18 Montana Commission ordered DEX to place the names of local exchange
19 carriers on the covers of their directories. To my knowledge, at least one other
20 state commission had issued a similar order that was under appeal. About the
21 same time, DEX was also negotiating publishing agreements with several

⁴ DEX includes up to the top five local exchange carriers that have publishing agreements with DEX. The top five are selected by directory on the basis of the percentage of primary listings appearing in the directory.

1 different competitive LECs. DEX revised their policy and committed to printing
2 the names of up to five LECs on their directory covers.

3
4 **Q. IS THERE VALUE TO DEX TO PLACE THE NAMES OF SEVERAL LOCAL**
5 **EXCHANGE CARRIERS ON THEIR COVERS?**

6
7 **A.** I suppose a case could be made that there is some value to DEX, but I believe a
8 stronger case can be made that the value is greater for the LECs, including
9 U S WEST, than it is to DEX.

10
11 **Q. IF DEX ONLY RECENTLY STARTED INCLUDING LEC NAMES ON THEIR**
12 **COVERS, WHAT DID DEX DO PREVIOUSLY?**

13
14 **A.** From 1984 through mid-1988, DEX published their Arizona directories with
15 Mountain Bell's name on the cover. U S WEST DIRECT (now DEX) was created
16 in 1984 and their name was new and an unknown. The three telephone
17 companies, Mountain Bell, Northwestern Bell and Pacific Northwest Bell, had
18 name recognition. Although at divestiture these three companies combined to
19 make up the new U S WEST RBOC, they retained their individual names and
20 continued to do business with their established names and reputations. In this
21 way, DEX was able to capitalize on both the name recognition and the business
22 relationship that Mountain Bell had had with its Yellow Pages advertisers.

1 Exhibit AKC-2 is a copy of a 1985 Phoenix Metro directory cover to illustrate the
2 cover appearance between 1984 and mid-1988.

3
4 In mid-1988 DEX made the decision to publish its directories without Mountain
5 Bell's name on the cover. By 1988, however, the U S WEST DIRECT name was
6 well known and the publisher had established its own relationship with
7 advertisers. Mountain Bell was still doing business as Mountain Bell, not
8 U S WEST, however the directories were published with only the
9 U S WEST DIRECT name on the cover. The Bell logo still appeared on the
10 covers, but it should be understood that the Bell logo was owned by the parent
11 company, U S WEST, Inc., not by Mountain Bell, nor the other two telephone
12 companies. This style directory cover was used by DEX from mid-1988 into
13 early 1997. Exhibit AKC-3 is a copy of a 1997 Prescott directory cover in this
14 style.

15
16 In the fall of 1996, U S WEST DIRECT became U S WEST DEX. The name
17 U S WEST DEX and it's new logo, the "your directory expert" detective with the
18 magnifying glass were first used on the directory covers starting in 1997. At that
19 time the Bell logo was dropped. In 1998 DEX began including LEC names on
20 the cover in many locations, as I previously described. Exhibit AKC-4 is a copy
21 of a current East Valley directory cover.

22

1 **Q. SHOULD DEX COMPENSATE U S WEST FOR ITS U S WEST NAME**
2 **ASSOCIATION?**

3
4 A. No, DEX has established its own name recognition and no longer relies on its
5 former or current relationship with U S WEST. This becomes apparent by
6 viewing the changes in the cover formats from 1984 -1988 (AKC-2) to 1988 -
7 1997 (AKC-3) to 1998, the current cover format (AKC-4).

8
9 **Q. WHAT ABOUT THE FACT THAT DEX HAS U S WEST IN ITS NAME?**

10
11 A. DEX has as much right and ownership to the U S WEST part of their name as
12 U S WEST Communications does. Over the last fifteen year, in fact, DEX has
13 contributed greatly to the name recognition of U S WEST. There is no need for
14 DEX to compensate U S WEST for a name that belongs to both companies as
15 well as to other U S WEST companies.

16
17 **Q. PLEASE SUMMARIZE WHY THE FEES PAID BY DEX ARE LOWER NOW**
18 **THAN THEY WERE IN 1984.**

19
20 A. Fees paid by DEX are lower now than they were in 1984 for two reasons. First,
21 DEX receives fewer services from U S WEST under the current publishing
22 agreement than in 1984, so the fees have been reduced. Second, changes in

1 market and legal conditions have reduced the value of services provided by
2 U S WEST under the Publishing Agreement.

3
4 **Q. DOES U S WEST RECEIVE FULL VALUE IN FEES FOR THE SERVICES**
5 **PROVIDED UNDER PUBLISHING AGREEMENTS TODAY?**

6
7 **A.** Yes. DEX provides the same quality White and Yellow Pages directories to
8 U S WEST's customers at no cost to U S WEST or its customers under the
9 terms of a publishing agreement that is virtually the same as DEX has with many
10 competitive and independent LECs. DEX pays U S WEST market rates for
11 subscriber listings, as do many independent directory publishers. Mr. Redding
12 has reflected all the fees and the benefit of the cost savings in the financials filed
13 in this case.

14
15 **CONCLUSION**

16
17 **Q. WHO INCURS THE COSTS OF PUBLISHING AND DELIVERING**
18 **DIRECTORIES TO U S WEST CUSTOMERS?**

19
20 **A.** DEX incurs all the costs of publishing and delivering directories to U S WEST
21 customers. At the time of the Settlement Agreement DEX incurred these costs
22 and DEX continues to incur these costs. The cost to DEX to publish and deliver

1 directories has increased over the years from approximately \$2.5 million to \$13
2 million. However, the cost to U S WEST and to U S WEST customers was low
3 in 1984 and is zero today.
4

5 **Q. WHY HAVE THE FEES PAID BY DEX TO U S WEST DECREASED?**
6

7 A. The fees have decreased because the services provided under the Publishing
8 Agreement are fewer and have less value today than previously. Both court
9 decisions and federal legislation have contributed to the availability of listings
10 and the ability of any publisher to publish directories in any market. This change
11 in the publishing environment has drastically lowered the market value of
12 publishing rights. U S WEST charges DEX market price for its listings and the
13 Publishing Agreement between U S WEST and DEX reflects market conditions
14 and values, since DEX has the same agreements with competitive Local
15 Exchange Carriers as well as with independent Local Exchange Carriers.
16

17 **Q. IS ANY IMPUTATION APPROPRIATE?**
18

19 A. No. U S WEST is receiving fees at a fair market rate for the full value of the
20 services U S WEST provides to DEX. DEX continues to provide both White and
21 Yellow Pages directories ("the services") at no cost to U S WEST or to
22 U S WEST customers.

1

2 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

3

4 **A. Yes, it does.**

BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE APPLICATION OF
U S WEST COMMUNICATIONS, INC., A
COLORADO CORPORATION, FOR A
HEARING TO DETERMINE THE EARNINGS
OF THE COMPANY, THE FAIR VALUE OF THE
COMPANY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, AND TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN.**

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DOCKET NO. T-1051B-99-105

EXHIBITS

OF

ANN KOEHLER-CHRISTENSEN

U S WEST COMMUNICATIONS

May 3, 2000

WITNESS QUALIFICATION STATEMENT

NAME: Ann Koehler-Christensen

EMPLOYED BY: U S WEST Communications, Inc.

ADDRESS: 1600 7th Avenue, Room 3008, Seattle, Washington 98191

EDUCATION: Bachelor of Arts degree in German, University of Puget Sound, 1969
Master of Arts degree in Economics, New Mexico State University, 1994

WORK EXPERIENCE:

1970-1972	Service Representative, Business Office
1972-1988	Various Management positions in Accounting
1988-1996	Manager-Affiliated Interests, Public Policy
1996-Current	Manager-Regulatory Finance, Finance

PRINCIPLE DUTIES: Responsible for the analysis of information and contractual agreements concerning U S WEST's affiliated relationship with U S WEST Dex, Inc., including the imputation of revenues by regulatory commissions.

WITNESS EXPERIENCE: Issue: Directory

Arizona

Docket E-1051-93-183, Rebuttal Testimony filed 4/22/94
Docket T-1051B-99-105, Direct Testimony filed 1/8/99

Idaho

Docket USW-S-96-5, Rebuttal Testimony filed 1/23/97

Iowa

Docket No. RPU-93-9, Direct Testimony filed 12/6/93
Docket No. RPU-93-9, Surrebuttal Testimony filed 2/23/94

Montana

Docket No. 90.12.86, Direct Testimony filed 1/15/92

New Mexico

Docket No. 92-227-TC, Rebuttal Testimony filed 1/26/93

Oregon

Docket UT 125, Direct Testimony filed 12/18/95
Docket UT 125, Reply Testimony filed 10/7/96

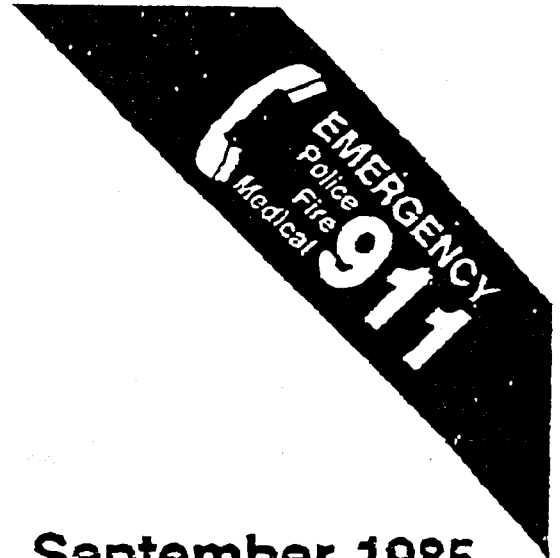
Utah

Docket 94-049-08, Direct Testimony filed 3/10/95
Docket 94-049-08, Rebuttal Testimony filed 8/25/95
Docket 97-049-08, Direct Testimony filed 3/18/97
Docket 97-049-08, Rebuttal Testimony filed 8/22/97
Docket 97-049-08, Surrebuttal Testimony filed 9/3/97

Washington

Docket UT-950200, Rebuttal Testimony filed 10/3/95
Docket UT-980948, Direct Testimony filed 10/16/98
Docket UT-980948, Rebuttal Testimony filed 4/23/99
Docket UT-980948, Rejoinder Testimony filed 7/16/99

Metro
Phoenix
Area Code 602



September 1985

The White Pages

Published by
USWEST DIRECT®

Metro
Phoenix
Area Code 602



September 1985

The White Pages

Published by
USWEST DIRECT®

Prescott

Flagstaff • Chino Valley
Dewey • Humboldt • Mayer
Prescott Valley

Area Code 520
April 1997/1998



USWEST
DIRECT

New!

Find complete local
and national listings

<http://yp.uswest.com>

The White & Yellow Pages

COMMUNITY PAGES

Events, Maps & ZIP Codes

GOVERNMENT PAGES

City, County, State &
Federal Agencies

INDEX

Following The Yellow Pages

MONEY-SAVING COUPONS

At the Back of the Book

Prescott

Adad • Chino Valley
Jewey • Humboldt • Mayer
Prescott Valley



USWEST
DIRECT

Area Code 520
April 1997/1998

New!

Find complete local
and national listings

<http://yp.uswest.com>

The White & Yellow Pages

COMMUNITY PAGES

Events, Maps & ZIP Codes

GOVERNMENT PAGES

City, County, State &
Federal Agencies

INDEX

Following The Yellow Pages

MONEY-SAVING COUPONS

At the Back of the Book



East Valley

Mesa • Tempe • Chandler

Ahwatukee, Apache Junction, Chandler Heights, Gilbert, Guadalupe,
Higley, Palm Springs, Queen Creek, Sun Lakes, Superstition
September 1998/1999

Area Codes 520/602

USWEST Dex 
Your Directory Expert

The White Pages



Phone Service Pages
Information, tips & area codes



Government Pages
City, county, state & federal agencies



Business Listings
Following the residential listings



Complete Listings
Listings for all local telephone companies including:
U S WEST, Gila River Telecommunications, Inc.,
MCI, 1-800-RECONEX



<http://uswestdex.com>
Find complete local and
national listings



East Valley

Mesa • Tempe • Chandler

Ahwatukee, Apache Junction, Chandler Heights, Gilbert, Guadalupe,
Higley, Palm Springs, Queen Creek, Sun Lakes, Superstition
September 1998/1999

Area Codes 520/602

USWEST Dex 
Your Directory Expert

The White Pages



Phone Service Pages
Information, tips & area codes



Government Pages
City, county, state & federal agencies



Business Listings
Following the residential listings



Complete Listings
Listings for all local telephone companies including:
U S WEST, Gila River Telecommunications, Inc.,
MCI, 1-800-RECONEX



<http://uswestdex.com>
Find complete local and
national listings

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A HEARING)
TO DETERMINE THE EARNINGS OF THE)
COMPANY, THE FAIR VALUE OF THE)
COMPANY FOR RATEMAKING PURPOSES, TO)
FIX A JUST AND REASONABLE RATE OF)
RETURN THEREON AND REASONABLE RATE)
OF RETURN THEREON AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN)

STATE OF WASHINGTON)

COUNTY OF KING)

DOCKET NO. T-1051B-99-105
AFFIDAVIT OF
ANN KOEHLER-CHRISTENSEN

SS

Ann Koehler-Christensen, of lawful age being first duly sworn, deposes and states:


1. My name is Ann Koehler-Christensen. I am a Regulatory Manager in the Finance Department of U S WEST Communications in Seattle, Washington.
2. Attached hereto and made a part hereof for all purposes is my testimony.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct tot the best of my knowledge and belief.


Ann Koehler-Christensen



My Commission Expires:

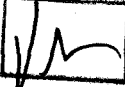
11/24/03


Notary Public
Residing at Kent

BEFORE THE ARIZONA CORPORATION COMMISSION Arizona Corporation Commission
DOCKETED

MAY 03 2000

IN THE MATTER OF THE APPLICATION)
OF U S WEST COMMUNICATIONS, INC.,)
A COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE)
EARNINGS OF THE COMPANY FOR)
RATEMAKING PURPOSES, TO FIX A)
JUST AND REASONABLE RATE OF)
RETURN THEREON, AND TO APPROVE)
RATE SCHEDULES DESIGNED TO)
DEVELOP SUCH RETURN)

DOCKETED BY	
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DOCKET NO. T-01051B-99-105

DIRECT TESTIMONY OF

KERRY DENNIS WU

ON BEHALF OF

U S WEST

MAY 3, 2000

TESTIMONY OF KERRY DENNIS WU

INDEX OF TESTIMONY

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TESTIMONY	2

II. EXHIBITS

U S WEST Statements with January 6, 2000 and April 25, 2000 Ordered Parameters, Lives and Rates	KDW-1
Change in Depreciation Accruals Resulting from Changes in Depreciation Rates Using Investment 12/31/99 Balances – Intrastate Factors Applied.....	KDW-2

EXECUTIVE SUMMARY

My testimony introduces the rates and lives the Commission ordered to be used in the Company's rate case. The attached exhibit KDW-1 shows the depreciation lives and rates that have been incorporated into the Company's updated filing.

Based on 1/1/97 investment balances, current depreciation rates increase depreciation expense by \$79.2 million. Utilizing end-of-period 12/31/99 investment balances to conform with the new 1999 test period, the current depreciation rates result in a \$99.7 million increase.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Kerry Dennis Wu. My title is Director - Capital Recovery for U S WEST Communications, Inc. (U S WEST). My business address is 1600 7th Avenue, Room 3006, Seattle, Washington 98191.

Q. PLEASE GIVE A BRIEF OUTLINE OF YOUR EDUCATIONAL BACKGROUND AND TELEPHONE COMPANY EXPERIENCE.

A. I graduated from Portland State University in 1974, where I earned Bachelor of Science degrees in Business Administration and Science. In 1995, I received a Masters of Business Administration from the University of Washington. In addition, I am a Certified Internal Auditor, a Certified Management Accountant and a Certified Public Accountant.

I began working for Pacific Northwest Bell (PNB) in 1974 as an internal auditor specializing in accounting and financial issues. I later managed Corporate Books and was responsible for closing the Company's books and preparation of Securities and Exchange Commission Filings. I subsequently managed Corporate Budget preparation. In the regulatory area, I supported U S WEST's rate of return advocacy by preparing testimony and related materials. In 1996, I worked for a London based mobile phone company, where I was responsible for mechanizing annual regulatory filings and developing tariffs. Upon returning to the States, I accepted a position with AirTouch Cellular as a budget analyst. In mid-1998, I was appointed the Director – Capital Recovery at U S WEST.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to show the depreciation lives and rates resulting from the Commission most recent depreciation decisions. Current depreciation rates have been incorporated into the Company's updated rate case filing.

TESTIMONY

Q. WHAT DEPRECIATION RATES DID THE COMMISSION ORDER TO USED IN THE RATE CASE?

A. The lives and rates are shown on the attached exhibit KDW-1.

Q. WHAT IS THE EFFECT OF CURRENT DEPRECIATION RATES ON ARIZONA'S ANNUAL INTRASTATE DEPRECIATION ACCRUAL.

A. Based on 1/1/97 investment balances, the current rates increase depreciation rates by \$79.2 million. Utilizing end-of-period 12/31/99 investment balances to conform with the new December 1999 test period, current rates result in a \$99.7 million increase. The application of the ordered depreciation rates to the 12/31/99 Arizona intrastate investment balances is shown on Exhibit KDW-2.

1 **Q. WHY DOES THE DEPRECIATION EXPENSE EFFECT OF RECENTLY**
2 **ORDERED DEPRECIATION RATES CHANGE FROM \$79.2 MILLION**
3 **TO \$99.7 MILLION?**

4
5 **A.** The \$79.2 million amount was based on investment levels as of 1/1/97,
6 the date of the filed study. Since that time, U S WEST has made
7 substantial investments in Arizona. The updated test year calculation
8 utilizes investment levels as of 12/31/99. The change from \$79.2 million
9 to \$99.7 million represents the effect of three years of continuing
10 investment in Arizona.

11
12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13
14 **A.** Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF U S WEST COMMUNICATIONS, INC.,)
A COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE)
EARNINGS OF THE COMPANY FOR)
RATEMAKING PURPOSES, TO FIX A)
JUST AND REASONABLE RATE OF)
RETURN THEREON AND TO APPROVE)
RATE SCHEDULES DESIGNED TO)
DEVELOP SUCH RETURN)**

DOCKET NO. T-01051B-99-105

**EXHIBITS OF
KERRY DENNIS WU**

ON BEHALF OF

U S WEST

MAY 3, 2000

SUMMARY OF DEPRECIATION RATES
ALL VINTAGE RECOVERY

		DEPRECIATION RATES IN EFFECT 12/31/1996				RATES EFFECTIVE IN 1997			
ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	REM LIFE YEARS	FUTURE RESERVE %	NET SALVAGE %	NET RATE %	REM LIFE YEARS	FUTURE RESERVE %	NET SALVAGE %	NET RATE %
		A	B	C	D	E	F	G	H
2112	MOTOR VEHICLES	3.9	41.0	18.0	10.5	3.6	66.4	16.0	4.9
2114	SPEC PURPOSE VEHICLE	8.4	24.0	23.0	5.9	9.8	0.0	0.0	10.2
2115	GARAGE WORK EQUIP	9.0	16.9	23.0	6.7	10.2	-55.1	-4.0	15.6
2116	OTHER WORK EQUIP	8.4	27.7	23.0	5.9	5.4	7.2	7.0	15.9
2121	BUILDINGS	28.0	15.4	-10.0	3.4	26.0	29.2	-6.0	3.0
2122	FURNITURE	10.1	20.4	3.0	7.6	5.5	-10.8	0.0	20.1
2123.1	OFFICE EQUIPMENT	7.1	28.8	5.0	9.3	3.3	26.3	0.0	22.3
2123.2	COMPANY COMM EQUIP	3.3	62.1	1.0	11.2	5.3	67.7	0.0	6.1
2124	GEN PURPOSE CMPTR	3.0	42.9	5.0	17.4	2.4	72.4	5.0	9.4
2211	ANALOG SW EQUIP	8.4	34.7	2.0	7.5	3.4	44.8	0.0	16.2
2212	DIGITAL SW EQUIP	10.4	16.3	3.0	7.8	5.4	37.5	3.0	11.0
2220	OPERATOR SYSTEMS	1.4	4.1	3.0	66.4	4.1	96.6	-3.0	1.6
2231	RADIO SYSTEMS	8.1	34.5	-8.0	9.1	6.6	64.0	-2.0	5.8
2232	CIRCUIT EQUIP								
	CIRCUIT DDS	4.0	50.5	-4.0	13.4	4.0	75.4	3.0	5.4
	CIRCUIT DIGITAL	7.9	27.8	3.0	8.8	5.1	47.8	2.0	9.8
	CIRCUIT ANALOG	5.0	39.1	3.0	11.6	3.3	89.3	0.0	3.2
2351	PUB TEL TERM EQUIP	2.7	94.6	1.0	1.6	3.6	77.8	30.0	0.0
2362	OTHER TERM EQUIP	4.7	45.9	3.0	10.9	6.4	49.9	2.0	7.5
2411	POLE LINES	15.6	55.9	-49.0	6.0	26.0	71.6	-138.0	6.4
2421	AERIAL CABLE MET	9.3	27.3	-23.0	10.3	5.2	61.5	-27.0	12.6
2421	AERIAL CABLE NON MET	15.5	4.0	-27.0	7.9	13.1	12.5	-27.0	8.7
2422	UNDGRD CABLE MET	13.8	24.9	-9.0	6.1	5.8	50.8	-6.0	9.5
2422	UNDGRD CABLE NON MET	18.7	7.8	-21.0	6.1	7.7	26.5	-6.0	10.3
2423	BURIED CABLE MET	14.8	25.7	-2.0	5.2	5.6	40.0	-7.0	12.0
2423	BURIED CABLE NON MET	20.0	10.0	-9.0	5.0	12.9	24.8	-7.0	6.4
2424	SUB CABLE MET	22.0	-80.9	0.0	8.2	1.4	-20.6	0.0	86.1
2424	SUB CABLE NON MET	13.9	36.8	0.0	14.0	0.0	0.0	0.0	0.0
2426	INTRA BLDG CA MET	14.1	53.1	-12.0	4.2	8.3	70.7	0.0	3.5
2426	INTRA BLDG NON MET	12.5	-14.0	-33.0	11.8	6.1	20.2	0.0	13.1
2431	AERIAL WIRE	12.0	12.2	-32.0	10.0	5.5	16.8	-30.0	20.6
2441	CONDUIT SYSTEMS	47.0	16.2	-11.0	2.0	44.0	21.1	-20.0	2.2

CHANGE IN ANNUAL DEPRECIATION ACCRUALS
RESULTING FROM CHANGES IN DEPRECIATION RATES
(\$000)

ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	INVESTMENT 1/1/97	RATES EFFECTIVE 12/31/1996			RATES EFFECTIVE IN 1997			CHANGE IN ACCRUALS
			RATE AMOUNT	AMORT AMOUNT	TOTAL	RATE AMOUNT	AMORT AMOUNT	TOTAL	
		I	J=D*I	K	L=J+K	M=H*I	N	O=M+N	P=O-L
2112	MOTOR VEHICLES	53,010	5,566	0	5,566	2,597	0	2,597	-2,969
2114	SPEC PURPOSE VEHICLE	26	2	0	2	3	0	3	1
2115	GARAGE WORK EQUIP	1,308	88	0	88	204	0	204	116
2116	OTHER WORK EQUIP	23,811	1,405	0	1,405	3,786	0	3,786	2,381
2121	BUILDINGS	153,169	5,208	0	5,208	4,595	0	4,595	-613
2122	FURNITURE	1,792	136	0	136	360	0	360	224
2123.1	OFFICE EQUIPMENT	6,039	562	0	562	1,347	0	1,347	785
2123.2	COMPANY COMM EQUIP	18,348	2,055	0	2,055	1,119	0	1,119	-936
2124	GEN PURPOSE CMPTR	164,621	28,644	0	28,644	15,474	0	15,474	-13,170
2211	ANALOG SW EQUIP	235,804	17,685	0	17,685	38,200	0	38,200	20,515
2212	DIGITAL SW EQUIP	607,055	47,350	0	47,350	66,776	0	66,776	19,426
2220	OPERATOR SYSTEMS	9,204	6,111	0	6,111	147	0	147	-5,964
2231	RADIO SYSTEMS	39,446	3,590	0	3,590	2,288	0	2,288	-1,302
2232	CIRCUIT EQUIP								
	CIRCUIT DDS	12,049	1,615	0	1,615	651	0	651	-964
	CIRCUIT DIGITAL	878,564	77,314	0	77,314	86,099	0	86,099	8,785
	CIRCUIT ANALOG	67,630	7,845	0	7,845	2,164	0	2,164	-5,681
2351	PUB TEL TERM EQUIP	15,068	241	0	241	0	0	0	-241
2362	OTHER TERM EQUIP	39,215	4,274	0	4,274	2,941	0	2,941	-1,333
2411	POLE LINES	42,411	2,545	0	2,545	2,714	0	2,714	169
2421	AERIAL CABLE MET	142,374	14,665	0	14,665	17,939	0	17,939	3,274
2421	AERIAL CABLE NON MET	5,616	444	0	444	489	0	489	45
2422	UNDGRD CABLE MET	315,966	19,274	0	19,274	30,017	0	30,017	10,743
2422	UNDGRD CABLE NON MET	74,447	4,541	0	4,541	7,668	0	7,668	3,127
2423	BURIED CABLE MET	1,010,069	52,524	0	52,524	121,208	0	121,208	68,684
2423	BURIED CABLE NON MET	16,552	828	0	828	1,059	0	1,059	231
2424	SUB CABLE MET	3	0	0	0	3	0	3	3
2424	SUB CABLE NON MET	0	0	0	0	0	0	0	0
2426	INTRA BLDG CA MET	38,068	1,599	0	1,599	1,332	0	1,332	-267
2426	INTRA BLDG NON MET	327	39	0	39	43	0	43	4
2431	AERIAL WIRE	6,438	644	0	644	1,326	0	1,326	682
2441	CONDUIT SYSTEMS	271,676	5,434	0	5,434	5,977	0	5,977	543
	TOTALS	4,250,106	312,228	0	312,228	418,526	0	418,526	106,298
	COMPOSITES				7.3			9.8	

SUMMARY OF RESERVES 1-1-1997

ACCOUNT CATEGORY		1-1-97 INVESTMENT	BOOK RESERVE		AVERAGE SERVICE LIFE	AVERAGE REM LIFE	AVERAGE NET SALVAGE	FUTURE NET SALVAGE	THEORETICAL RESERVE	
			AMOUNT	PERCENT					AMOUNT	PERCENT
		A\$	B\$	C=B/A	D	E	F	G	H\$	I
2112	MOTOR VEHICLES	53,009,820	35,179,798	66.4	9.2	3.6	15	16	26,875,979	50.7
2114	SPEC PURPOSE VEHICLE	25,794	0	0.0	14.2	9.8	0	0	7,996	31.0
2115	GARAGE WORK EQUIP	1,308,374	-720,784	-55.1	12.3	10.2	-24	-4	15,700	1.2
2116	OTHER WORK EQUIP	23,811,229	1,722,644	7.2	10.3	5.4	9	7	10,786,487	45.3
2121	BUILDINGS	153,169,412	44,748,255	29.2	37.0	26.0	2	-6	56,825,852	37.1
2122	FURNITURE	1,791,709	-193,966	-10.8	9.4	5.5	3	0	774,018	43.2
2123.1	OFFICE EQUIPMENT	6,038,976	1,588,990	26.3	8.5	3.3	0	0	3,695,853	61.2
2123.2	COMPANY COMM EQUIP	18,347,890	12,430,681	67.7	8.5	5.3	0	0	6,898,807	37.6
2124	GEN PURPOSE CMPTR	164,621,049	119,184,148	72.4	6.2	2.4	6	5	96,467,935	58.6
2211	ANALOG SW EQUIP	235,804,048	105,603,265	44.8	9.8	3.4	6	0	158,931,928	67.4
2212	DIGITAL SW EQUIP	607,055,415	227,681,277	37.5	9.3	5.4	3	3	247,071,554	40.7
2220	OPERATOR SYSTEMS	9,204,282	8,887,798	96.6	11.0	4.1	-3	-3	5,945,966	64.6
2231	RADIO SYSTEMS	39,445,929	25,263,128	64.0	14.9	6.6	-1	-2	22,602,517	57.3
2232	CIRCUIT EQUIP									
	CIRCUIT DDS	12,048,810	9,084,651	75.4	8.1	4.0	8	3	6,217,186	51.6
	CIRCUIT DIGITAL	878,564,418	419,570,151	47.8	9.5	5.1	2	2	398,868,246	45.4
	CIRCUIT ANALOG	67,630,476	60,421,492	89.3	12.1	3.3	-1	0	49,032,095	72.5
2351	PUB TEL TERM EQUIP	15,068,490	11,722,281	77.8	7.2	3.6	30	30	5,273,972	35.0
2362	OTHER TERM EQUIP	39,214,535	19,553,010	49.9	9.0	6.4	8	2	12,783,938	32.6
2411	POLE LINES	42,410,540	30,357,356	71.6	34.0	26.0	-86	-138	40,629,297	95.8
2421	AERIAL CABLE MET	142,374,081	87,505,429	61.5	13.7	5.2	-21	-27	115,465,380	81.1
2421	AERIAL CABLE NON MET	5,616,138	704,138	12.5	15.0	13.1	-27	-27	904,198	16.1
2422	UNDGRD CABLE MET	315,966,087	160,576,546	50.8	18.1	5.8	-6	-6	227,495,583	72.0
2422	UNDGRD CABLE NON MET	74,447,014	19,746,787	26.5	13.0	7.7	-6	-6	32,161,110	43.2
2423	BURIED CABLE MET	1,010,068,793	404,260,231	40.0	13.6	5.6	-7	-7	635,333,271	62.9
2423	BURIED CABLE NON MET	16,551,957	4,108,316	24.8	18.0	12.9	-7	-7	5,015,243	30.3
2424	SUB CABLE MET	2,572	-529	-20.6	15.0	1.4	0	0	2,333	90.7
2424	SUB CABLE NON MET	0	0	0.0	0.0	0.0	0	0	0	0.0
2426	INTRA BLDG CA MET	38,068,059	26,932,096	70.7	19.9	8.3	2	0	22,498,223	59.1
2426	INTRA BLDG NON MET	326,996	66,176	20.2	9.2	6.1	0	0	110,198	33.7
2431	AERIAL WIRE	6,437,962	1,083,329	16.8	9.5	5.5	-25	-30	3,708,266	57.6
2441	CONDUIT SYSTEMS	271,676,174	57,401,705	21.1	57.0	44.0	-20	-20	74,439,272	27.4
TOTAL		4,250,107,029	1,894,468,399	44.6					2,266,838,403	53.3

CHANGE IN ANNUAL DEPRECIATION ACCRUALS
RESULTING FROM CHANGES IN DEPRECIATION RATES
INTRA STATE FACTORS APPLIED (\$000)

ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	INVESTMENT 1/1/97	RATES EFFECTIVE 12/31/1996			RATES EFFECTIVE IN 1997			CHANGE IN ACCRUALS
			RATE AMOUNT	AMORT AMOUNT	TOTAL	RATE AMOUNT	AMORT AMOUNT	TOTAL	
		I	J=D*I	K	L=J+K	M=H*I	N	O=M+N	P=O-L
2112	MOTOR VEHICLES	41,205	4,326	0	4,326	2,019	0	2,019	-2,308
2114	SPEC PURPOSE VEHICLE	20	2	0	2	2	0	2	1
2115	GARAGE WORK EQUIP	1,017	68	0	68	159	0	159	90
2116	OTHER WORK EQUIP	18,508	1,092	0	1,092	2,943	0	2,943	1,851
2121	BUILDINGS	119,059	4,048	0	4,048	3,572	0	3,572	-476
2122	FURNITURE	1,393	106	0	106	280	0	280	174
2123.1	OFFICE EQUIPMENT	4,694	437	0	437	1,047	0	1,047	610
2123.2	COMPANY COMM EQUIP	14,262	1,597	0	1,597	870	0	870	-728
2124	GEN PURPOSE CMPTR	127,960	22,265	0	22,265	12,028	0	12,028	-10,237
2211	ANALOG SW EQUIP	188,502	14,137	0	14,137	30,537	0	30,537	16,400
2212	DIGITAL SW EQUIP	485,280	37,852	0	37,852	53,381	0	53,381	15,529
2220	OPERATOR SYSTEMS	8,487	5,635	0	5,635	136	0	136	-5,499
2231	RADIO SYSTEMS	27,119	2,468	0	2,468	1,573	0	1,573	-895
2232	CIRCUIT EQUIP								
	CIRCUIT DDS	8,284	1,110	0	1,110	448	0	448	-663
	CIRCUIT DIGITAL	604,013	53,153	0	53,153	59,193	0	59,193	6,040
	CIRCUIT ANALOG	46,496	5,393	0	5,393	1,488	0	1,488	-3,906
2351	PUB TEL TERM EQUIP	11,301	181	0	181	0	0	0	-181
2362	OTHER TERM EQUIP	29,411	3,206	0	3,206	2,206	0	2,206	-1,000
2411	POLE LINES	31,329	1,880	0	1,880	2,005	0	2,005	125
2421	AERIAL CABLE MET	105,172	10,833	0	10,833	13,252	0	13,252	2,419
2421	AERIAL CABLE NON MET	4,149	328	0	328	361	0	361	33
2422	UNDGRD CABLE MET	233,404	14,238	0	14,238	22,174	0	22,174	7,936
2422	UNDGRD CABLE NON MET	54,994	3,354	0	3,354	5,664	0	5,664	2,310
2423	BURIED CABLE MET	746,138	38,799	0	38,799	89,536	0	89,536	50,737
2423	BURIED CABLE NON MET	12,227	612	0	612	782	0	782	171
2424	SUB CABLE MET	2	0	0	0	2	0	2	2
2424	SUB CABLE NON MET	0	0	0	0	0	0	0	0
2426	INTRA BLDG CA MET	28,121	1,181	0	1,181	984	0	984	-197
2426	INTRA BLDG NON MET	242	29	0	29	32	0	32	3
2431	AERIAL WIRE	4,756	476	0	476	980	0	980	504
2441	CONDUIT SYSTEMS	200,687	4,014	0	4,014	4,415	0	4,415	401
	TOTALS	3,158,229	232,821	0	232,821	312,066	0	312,066	79,245
	COMPOSITES				7.4			9.9	

SUMMARY OF RESERVES (INTRA STATE FACTORS APPLIED) 1-1-1997

		BOOK RESERVE			AVERAGE	AVERAGE	AVERAGE	FUTURE	THEORETICAL	
		1-1-97			SERVICE	REM	NET	NET	RESERVE	
ACCOUNT	CATEGORY	INVESTMENT	AMOUNT	PERCENT	LIFE	LIFE	SALVAGE	SALVAGE	AMOUNT	PERCENT
		A\$	B\$	C=B/A	D	E	F	G	H\$	I
2112	MOTOR VEHICLES	41,204,533	27,345,257	66.4	9.2	3.6	15	16	20,890,698	50.7
2114	SPEC PURPOSE VEHICLE	20,050	0	0.0	14.2	9.8	0	0	6,215	31.0
2115	GARAGE WORK EQUIP	1,016,999	-560,265	-55.1	12.3	10.2	-24	-4	12,204	1.2
2116	OTHER WORK EQUIP	18,508,468	1,339,011	7.2	10.3	5.4	9	7	8,384,336	45.3
2121	BUILDINGS	119,058,584	34,782,819	29.2	37.0	26.0	2	-6	44,170,735	37.1
2122	FURNITURE	1,392,695	-150,770	-10.8	9.4	5.5	3	0	601,644	43.2
2123.1	OFFICE EQUIPMENT	4,694,096	1,235,122	26.3	8.5	3.3	0	0	2,872,787	61.2
2123.2	COMPANY COMM EQUIP	14,261,815	9,662,368	67.7	8.5	5.3	0	0	5,362,442	37.6
2124	GEN PURPOSE CMPTR	127,959,941	92,641,838	72.4	6.2	2.4	6	5	74,984,526	58.6
2211	ANALOG SW EQUIP	188,501,756	84,419,250	44.8	9.8	3.4	6	0	127,050,184	67.4
2212	DIGITAL SW EQUIP	485,280,099	182,008,413	37.5	9.3	5.4	3	3	197,509,000	40.7
2220	OPERATOR SYSTEMS	8,487,268	8,195,439	96.6	11.0	4.1	-3	-3	5,482,775	64.6
2231	RADIO SYSTEMS	27,119,076	17,368,401	64.0	14.9	6.6	-1	-2	15,539,231	57.3
2232	CIRCUIT EQUIP									
	CIRCUIT DDS	8,283,557	6,245,698	75.4	8.1	4.0	8	3	4,274,315	51.6
	CIRCUIT DIGITAL	604,013,037	288,454,479	47.8	9.5	5.1	2	2	274,221,919	45.4
	CIRCUIT ANALOG	46,495,952	41,539,776	89.3	12.1	3.3	-1	0	33,709,565	72.5
2351	PUB TEL TERM EQUIP	11,301,368	8,791,711	77.8	7.2	3.6	30	30	3,955,479	35.0
2362	OTHER TERM EQUIP	29,410,901	14,664,758	49.9	9.0	6.4	8	2	9,587,954	32.6
2411	POLE LINES	31,328,666	22,424,979	71.6	34.0	26.0	-86	-138	30,012,862	95.8
2421	AERIAL CABLE MET	105,171,734	64,640,260	61.5	13.7	5.2	-21	-27	85,294,276	81.1
2421	AERIAL CABLE NON MET	4,148,641	520,147	12.5	15.0	13.1	-27	-27	667,931	16.1
2422	UNDGRD CABLE MET	233,404,148	118,617,895	50.8	18.1	5.8	-6	-6	168,050,987	72.0
2422	UNDGRD CABLE NON MET	54,994,009	14,586,952	26.5	13.0	7.7	-6	-6	23,757,412	43.2
2423	BURIED CABLE MET	746,137,817	298,627,033	40.0	13.6	5.6	-7	-7	469,320,687	62.9
2423	BURIED CABLE NON MET	12,226,931	3,034,813	24.8	18.0	12.9	-7	-7	3,704,760	30.3
2424	SUB CABLE MET	1,900	-391	-20.6	15.0	1.4	0	0	1,723	90.7
2424	SUB CABLE NON MET	0	0	0.0	0.0	0.0	0	0	0	0.0
2426	INTRA BLDG CA MET	28,120,875	19,894,739	70.7	19.9	8.3	2	0	16,619,437	59.1
2426	INTRA BLDG NON MET	241,552	48,884	20.2	9.2	6.1	0	0	81,403	33.7
2431	AERIAL WIRE	4,755,723	800,255	16.8	9.5	5.5	-25	-30	2,739,296	57.6
2441	CONDUIT SYSTEMS	200,687,190	42,402,639	21.1	57.0	44.0	-20	-20	54,988,290	27.4
TOTAL		3,158,229,382	1,403,581,508	44.4					1,683,855,075	53.3

PARAMETER REPORT

CATEGORY	FIRST	P.L.	AVG.	FUTURE	CURVE SHAPE PARAMETERS			
	ELG YEAR	OR AYFR	NET SALV.	NET SALV.	c	G	S	COMMENTS
2112 MOTOR VEHICLES			15	16				
2112 PASSENGER CARS	1983	8.6	15.4	16.0	IOWA CURVE	L3.0		
2112 LIGHT TRUCKS	1983	8.6	15.4	16.0	IOWA CURVE	L3.0		
2112 HEAVY TRUCKS	1983	8.6	15.4	16.0	IOWA CURVE	L3.0		
2114 SPEC PURPOSE VEHICLES	0	16.1	0	0	IOWA CURVE	S6.0		
2115 GARAGE WORK EQUIP	0	13.7	-24	-4	IOWA CURVE	L0.0		
2116 OTHER WORK EQUIP	0	11.5	9	7	IOWA CURVE	L4.0		
2121 BUILDINGS			2	-6				
2121 LARGE BUILDINGS	1983	43.0	2.0	-6.0	IOWA CURVE	R1.0		
2121 OTHER BUILDINGS	1983	43.0	2.0	-6.0	IOWA CURVE	R1.0		
2122 FURNITURE	1983	9.5	3	0	IOWA CURVE	O4.0		
2123.1 OFFICE EQUIPMENT	1983	7.0	0	0	IOWA CURVE	L0.5		
2123.2 COMPANY COMM EQUIP			0	0				
2123.2 STAND ALONE	0	8.3	-0.1	0.0	IOWA CURVE	L0.5		
2123.2 PBX & KEY INTRASYSTEMS	0	8.3	-0.1	0.0	IOWA CURVE	L0.5		
2124 GEN PURPOSE CMPTR	1983	5.0	6	5	IOWA CURVE	O1.0		
2211 ANALOG SW EQUIP	0	2000.0	6	0	CONSTANT RETIREMENT RATE	1.5		
2212 DIGITAL SW EQUIP	1983	10.0	3	3	IOWA CURVE	O1.0		
2220 OPERATOR SYSTEMS	1983	10.7	-3	-3	IOWA CURVE	S2.0		
2231 RADIO SYSTEMS	1983	15.1	-1	-2	IOWA CURVE	S1.5		
2232 CIRCUIT DDS	1983	8.1	8	3	IOWA CURVE	L1.0		
2232 CIRCUIT DIGITAL	1983	10.0	2	2	IOWA CURVE	O2.0		
2232 CIRCUIT ANALOG	1983	8.0	-1	0	IOWA CURVE	L0.0		
2351 PUB TEL TERM EQUIP	0	7.9	30	30	IOWA CURVE	S6.0		
2362 OTHER TERM EQUIP	0	6.8	8	2	IOWA CURVE	O3.0		
2411 POLE LINES	1982	46.4	-86	-138	IOWA CURVE	O1.0		
2421 AERIAL CABLE MET	1982	12.0	-21	-27	IOWA CURVE	R1.0		
2421 AERIAL CABLE NON MET	1982	14.5	-27	-27	IOWA CURVE	SQ		
2422 UNDGRD CABLE MET	1982	15.0	-6	-6	IOWA CURVE	R1.5		
2422 UNDGRD CABLE NON MET	1982	13.1	-6	-6	IOWA CURVE	SQ		
2423 BURIED CABLE MET	1982	12.0	-7	-7	IOWA CURVE	L1.5		
2423 BURIED CABLE NON MET	1982	17.6	-7	-7	IOWA CURVE	SQ		
2424 SUB CABLE MET	1982	15.0	0	0	IOWA CURVE	SQ		
2424 SUB CABLE NON MET	1982	9.0	0	0	IOWA CURVE	SQ		
2426 INTRA BLDG CA MET	1982	19.0	2	0	IOWA CURVE	L2.0		
2426 INTRA BLDG CABLE NON MET	1982	11.5	0	0	IOWA CURVE	O1.0		
2431 AERIAL WIRE	0	8.9	-25	-30	IOWA CURVE	L0.0		
2441 CONDUIT SYSTEMS	1982	56.6	-20	-20	IOWA CURVE	SQ		

**Change in Annual Depreciation Accruals Resulting from Changes in Depreciation Rates
Intrastate Factors Applied (\$000)**

Account Number and Class or Subclass of Plant	Intrastate Investment 12/31/1999 A	Previous Depreciation Rate@ B	Rate Amount C = A * B	Current Depreciation Rate* D	Rate Amount E = A * D	Change in Depreciation Accrual E - C
2112 MOTOR VEHICLES	47,502	10.5%	4,988	4.9%	2,328	(2,660)
2114 SPEC PURPOSE VEHICLES	18	5.9%	1	10.2%	2	1
2115 GARAGE WORK EQUIP	961	6.7%	64	15.6%	150	86
2116 OTHER WORK EQUIP	15,891	5.9%	938	15.9%	2,527	1,589
2121 BUILDINGS	115,383	3.4%	3,923	3.0%	3,461	(462)
2122 FURNITURE	1,208	7.6%	92	20.1%	243	151
2123.1 OFFICE EQUIPMENT	3,883	9.3%	361	22.3%	866	505
2123.2 COMPANY COMM EQUIPMENT	1,040	11.2%	116	6.1%	63	(53)
2124 GEN PURPOSE CMPTR	79,409	17.4%	13,817	9.4%	7,464	(6,353)
2211 ANALOG SW EQUIP	110,824	7.5%	8,312	16.2%	17,953	9,641
2212 DIGITAL SW EQUIP	655,053	7.8%	51,094	11.0%	72,056	20,962
2220 OPERATOR SYSTEMS	6,498	66.4%	4,315	1.6%	104	(4,211)
2231 RADIO SYSTEMS	23,571	9.1%	2,145	5.8%	1,367	(778)
2232 CIRCUIT DDS	5,667	13.4%	759	5.4%	306	(453)
2232 CIRCUIT DIGITAL	752,751	8.8%	66,242	9.8%	73,770	7,528
2232 CIRCUIT ANALOG	32,631	11.6%	3,785	3.2%	1,044	(2,741)
2362 OTHER TERM EQUIP	40,092	10.9%	4,370	7.5%	3,007	(1,363)
2351 PUB TEL TERM EQUIP	17,969	1.6%	288	0.0%	-	(288)
2411 POLE LINES	34,403	6.0%	2,064	6.4%	2,202	138
2421 AERIAL CABLE MET	121,417	10.3%	12,506	12.6%	15,299	2,793
2421 AERIAL CABLE NON MET	4,563	7.9%	360	8.7%	397	37
2422 UNDGRD CABLE MET	257,054	6.1%	15,680	9.5%	24,420	8,740
2422 UNDGRD CABLE NON MET	64,194	6.1%	3,916	10.3%	6,612	2,696
2423 BURIED CABLE MET	927,241	5.2%	48,217	12.0%	111,269	63,052
2423 BURIED CABLE NON MET	12,727	5.0%	636	6.4%	815	179
2424 SUB CABLE MET	2	8.2%	-	86.1%	2	2
2424 SUB CABLE NON MET	-	14.0%	-	0.0%	-	-
2426 INTRA BLDG CABLE MET	30,275	4.2%	1,272	3.5%	1,060	(212)
2426 INTRA BLDG CABLE NON MET	429	11.8%	51	13.1%	56	5
2431 AERIAL WIRE	6,494	10.0%	649	20.6%	1,338	689
2441 CONDUIT SYSTEMS	225,140	2.0%	4,503	2.2%	4,953	450
Total	3,594,290		255,464		355,134	99,670
Composites			7.1%		9.9%	

@ Exhibit KDW-1, Page 1 of 6, Column D
* Exhibit KDW-1, Page 1 of 6, Column H

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE EARNINGS)
OF THE COMPANY, THE FAIR VALUE OF) DOCKET NO. T-1051B-99-105
THE COMPANY FOR RATEMAKING)
PURPOSES, TO FIX A JUST AND)
REASONABLE RATE OF RETURN)
THEREON, AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP)
SUCH RETURN.)


STATE OF WASHINGTON)
: ss AFFIDAVIT OF KERRY DENNIS WU
COUNTY OF KING)

Kerry Dennis Wu, of lawful age being first duly sworn, depose and states:

1. My name is Kerry Dennis Wu. I am Director – Capital Recovery of U S WEST Communications in Seattle, Washington.
2. Attached hereto and made a part hereof for all purposes is my testimony consisting of pages 1 through 3, and my exhibits numbered KDW-1 and KDW-2.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


Kerry Dennis Wu

SUBSCRIBED AND SWORN to before me this 2nd day of
May, 2000.


Notary Public residing at
Seattle, Washington.

My Commission Expires: 09/16/02